



MINUTES  
SPECIAL MEETING  
BOARD OF RETIREMENT  
SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
December 5, 2013  
8:45 AM  
Board Room  
348 West Hospitality Lane, First Floor  
San Bernardino, California

Trustees Present:

DAVID WILLIAMS, Safety Member (Vice-Chairman)  
BRENDAN BRANDT, Appointed Member  
GLENN DUNCAN, Appointed Member  
LOUIS FIORINO, General Member  
DONALD NEELY, General Member  
LARRY WALKER, Treasurer  
NEAL WANER, Appointed Member  
HARRY HATCH, Alternate Retired Member  
DAWN STAFFORD, Retired Member (Chairman)

Others Present:

DONALD PIERCE, Chief Investment Officer  
CAROL FENN, Recorder

Not Present:

JANICE RUTHERFORD, Appointed Member  
BRET HENRY, Alternate Safety Member

1. Call meeting to order.

Chairman Stafford called the meeting to order at 8:45 a.m.

2. Approve minutes of Investment Committee of October 8, 2013.

Duncan moved, Brandt seconded, to Approve minutes of Investment Committee of October 8, 2013.

Absent: Rutherford, Henry,

Motion Passed.

3. Presentation by Staff of the Ares Master Custodial Account Agreement.

Pierce reviewed.

4. Action: Approve the Master Custodial Account Agreement with Ares Management.

**PUBLIC COMMENT**

**ADJOURN**

Respectfully submitted,

\_\_\_\_\_  
DAWN STAFFORD, Chairman

\_\_\_\_\_  
NORMAN L. RUGGLES, Secretary

DATED \_\_\_\_\_



**MINUTES  
INVESTMENT COMMITTEE  
October 8, 2013  
BOARD ROOM  
348 WEST HOSPITALITY LANE, FIRST FLOOR  
SAN BERNARDINO, CA**

Trustees Present:

LOUIS FIORINO, Committee Chairman  
GLENN DUNCAN, Committee Member  
DONALD NEELY, Committee Member  
NEAL WANER, Committee Member

Others Present:

NORM RUGGLES, Chief Executive Officer  
BARBARA HANNAH, Staff Attorney  
DONALD PIERCE, Chief Investment Officer  
EYDIE COX, Sr. Investment Analyst  
NANCY PIRRONE, Recorder

1. Call meeting to order.

Chairman Fiorino called the meeting to order at 9:36 a.m.

2. Approve minutes of Investment Committee of September 10, 2013.

Waner moved, Neely seconded, to Approve minutes of Investment Committee of September 10, 2013.

Motion Passed.

Abstain: Duncan

3. Presentation by Staff of the Alcentra Kneiff Tower Luxembourg S.à r.l. Guideline Change.

Pierce and Cox presented.

4. Presentation by Alcentra of the Alcentra Kneiff Tower Luxembourg S.à r.l. Guideline Change.

Julian Coleville and David Forbes-Nixon of Alcentra presented.

## Item 2. Page 2

INVESTMENT COMMITTEE Minutes

October 8, 2013

Page 2

5. Action: Approve the guideline change for the Alcentra Kneiff Tower Luxembourg S.à r.l.

Duncan moved, Waner seconded, to Approve the guideline change for the Alcentra Kneiff Tower Luxembourg S.à r.l., as amended with regional exposure.  
Motion Passed.

6. Presentation by Staff of the Gramercy Master Custodial Account Guideline Change.

Pierce and Cox presented.

7. Presentation by Gramercy of the Gramercy Master Custodial Account Guideline Change.

Robert Koenigsberger of Gramercy presented.

8. Action: Approve the guideline change for the Gramercy Master Custodial Account.

Duncan moved, Waner seconded, to Approve the guideline change for the Gramercy Master Custodial Account.  
Motion Passed.

9. Presentation by Staff of the Tennenbaum Waterman Fund.

Pierce presented.

10. Presentation by Tennenbaum Capital Partners of the Tennenbaum Waterman Fund.

Lee Landrum of Tennenbaum presented.

11. Action: Approve an additional \$25 million commitment to the Tennenbaum Waterman Fund.

Waner moved, Duncan seconded, to Approve an additional \$25 million commitment to the Tennenbaum Waterman Fund.  
Motion Passed.

12. Receive and file The Townsend Group Second Quarter 2013 Performance Measurement Review.

Pierce presented.

13. Discussion on Timbervest.

### **PUBLIC COMMENT**

No Public Comment was provided.

Investment Committee Minutes  
October 8, 2013  
Page 3

**ADJOURN**

The meeting adjourned at 11:42 a.m.

Respectfully submitted,

\_\_\_\_\_  
LOUIS FIORINO, Chairman

\_\_\_\_\_  
LARRY WALKER, Acting Secretary

DATED \_\_\_\_\_



**REPORT/RECOMMENDATION TO THE INVESTMENT COMMITTEE  
OF SAN BERNARDINO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

**September 10, 2013**

**FROM: James Perry, CAIA, CFA**  
Senior Investment Officer

**SUBJECT: Ares Master Custodial Account Agreement**

**RECOMMENDATION:**

Approve the Master Custodial Account Agreement with Ares Management.

**BACKGROUND INFORMATION:**

On December 10<sup>th</sup>, 2007 the Board approved expanding SBCERA's high yield allocation to a more widely defined credit allocation. The expanded definition of credit allowed a wider range of corporate debt that included first lien, senior secured, subordinated and convertible debt. The new credit allocation also allowed investments in structured credit instruments. When the Board approved the more widely defined credit allocation they authorized relative value, distressed and opportunistic strategies as allowable investments in the credit space. Following this approval, SBCERA Staff and the Plan's consultant launched a comprehensive credit manager search to include relative value, distressed and opportunistic strategies.

This search was posted on multiple web sites during the week of January 7, 2008 and received over 150 responses. Those responses were categorized into the three types of strategies: distressed, relative value and opportunistic and then further refined as direct corporate debt, structured credit or a blend. On May 12, 2008, the Ares Enhanced Credit Opportunity (ECO) Fund was one of the first managers approved by the Board through this comprehensive search. In July of 2008 SBCERA funded this mandate with \$30 million. Over the following six months SBCERA invested an additional \$30 million in the Ares ECO Fund.

In March of 2009, while the credit crisis raged, SBCERA utilized a competitive bidding process between Ares and Stone Tower to transition a large pool of bank loans. The loans had been held in two total return swap facilities within a separately managed account and were moved into term credit facilities owned by the Ares ECO Fund and the Stone Tower Credit Fund. This transaction was necessitated by the adversarial behavior of the banks that provided the total return swap facilities.

The transaction increased SBCERA's investment in the Ares ECO fund by an additional \$140 million. SBCERA made one subsequent investment in the Ares ECO fund in March 2010 of \$15 million. This last investment brought SBCERA's total contribution in the Ares ECO fund to \$215 million. By the end of July 2013, this investment had grown to almost \$487 million, a net gain of almost \$272 million and a net annualized return since inception of 20%. The Ares ECO investment likely represents the most successful investment in SBCERA's history in terms of net gain on a single actively managed fund investment.

## Item 3. Page 2

In addition to providing SBCERA with exceptional returns, Ares has also proven to be a great partner to SBCERA through its help in transitioning assets in a challenging market environment. The recommendation to create a Master Custodial Account with Ares will allow SBCERA to diversify its current holdings in ECO across the well regarded and strongly performing Ares platform. It is also intended to expand the manager's mandate from a predominately US bank loan focused strategy to a more broadly focused opportunistic mandate. This diversification will take approximately two years to implement and while bank loans will continue to be a key component of the investment mandate, investments will include a broader range of credit instruments including European direct lending, global structured credit, banking capital structure arbitrage and real estate debt opportunities. Additionally, the MCA will allow SBCERA to access direct investments and limited partnership structured opportunities offered by Ares on a very attractive relationship based pricing.

This new account structure would not be part of the 2013 private equity commitment level but would allow SBCERA to utilize Ares for a portion of its future private equity and real estate allocations on an opportunistic basis. Ares will manage the MCA structure for SBCERA on a relationship based price level for a management fee of 1% of NAV with an incentive allocation of 20% on returns over a 5% hard hurdle. In addition to pricing, the new proposed account structure provides SBCERA with a number of key improvements over prior contractual structures. The MCA structure offers greater flexibility to take advantage of market opportunities while mitigating a significant portion of the capital commitment liquidity overhang risk.

As part of this more broadly diversified MCA structure, Ares will utilize Advisory, Investment and Allocation Committees to monitor, evaluate and make recommendations regarding the allocation of the SBCERA/Ares MCA. These recommendations will be made to the SBCERA CIO and will require CIO written approval for execution. This structure and process will allow SBCERA to quickly respond to and take advantage of the best ideas available from Ares. Staff strongly recommends approving the creation of a Master Custodial Account with Ares and authorizing an annual commitment pace of \$10 million per year for the next five years.

**ADMINISTRATIVE BUDGET IMPACT:** N/A

**ATTACHMENTS:** NEPC – Recommendation Memo on Ares Management Master Custodial Account Agreement.  
Ares Management – Presentation on Master Custodial Account Agreement.

**PRESENTER:** James Perry, Senior Investment Officer



**To:** SBCERA Board

**From:** Allan Martin, Don Stracke, CFA CAIA, and Tony Ferrara

**Date:** September 10, 2013

**Subject:** Ares Management Restructure Recommendation

---

### **Summary/Recommendation**

Ares currently manages over \$480MM of SBCERA's assets (ECO) within the core credit strategies component of the Absolute return allocation (see attachment A). NEPC and staff recommend establishing a broader investment mandate designed to access Ares' broad skillset in global opportunistic credit. Potential investments within the Mandate may occur via either investments in other Ares' Funds, or via direct investments. Potential investments will be sourced and evaluated by Mr. Seth Brufsky, Mr. Americo Cascella and Mr. Greg Margoles, whom together comprise the Allocation Committee. Prospective fund commitments or direct investments will be made through a combination of new capital commitments and diversifications of SBCERA's existing ECO Investments (see Attachment B).

### **Background**

Ares Management LLC, an investment adviser registered with the United States Securities and Exchange Commission is a leading investment firm focused on alternative credit-based strategies, including private equity, private debt, real estate and capital markets activities. Headquartered in Los Angeles, Ares has a global presence with offices located across North America, Europe, Asia and Australia. Ares is organized as a Delaware limited liability company. Ares was established in 1997 by Antony Ressler, John Kissick and David Sachs. Ares Management is principally owned by members of its senior management team, who maintain 100% control over the firm. In May 2007, a minority interest in our Firm was acquired by a well-respected sovereign wealth fund. The investor did not acquire any voting or governance rights with its investment. Ares Management Limited, a subsidiary of Ares Management LLC, was established in 2006 as an expansion of the Ares business platform into Europe. As such, it is focused on Ares European capital markets and private debt activities. Ares Management Limited is authorized and regulated by the Financial Conduct Authority (FCA) in the United Kingdom.

Ares Capital Management LLC, a subsidiary of Ares Management LLC and an SEC-registered investment adviser, is the investment adviser to Ares Capital Corporation (NASDAQ: ARCC), a publicly traded closed-end, non-diversified specialty finance company that is regulated as a business development company, or a BDC, under the Investment Company Act of 1940. Established in 2004, Ares Capital Corporation provides financing for middle market acquisitions, recapitalizations and leveraged buyouts, mainly in the United States.

## Item 3. Page 4



During 2010, ARCC acquired Allied Capital (NASDAQ: as it was viewed that it was an attractive franchise with financing needs for which ARCC was able to provide a solution. Ares Capital Management II LLC, a subsidiary of Ares Management LLC and an SEC-registered investment adviser, is the investment adviser to Ares Dynamic Credit Allocation Fund, Inc. (NYSE: ARDC), a publically traded closed-end, non-diversified management investment company that is regulated under the Investment Company Act of 1940. Established in 2012, Ares Dynamic Credit Allocation Fund's investment objective is to provide an attractive level of total return, primarily through current income and, secondarily, through capital appreciation.

During 2011, Ares completed the acquisition of the investment platform of Wrightwood Capital, a highly respected provider of debt capital to the U.S. real estate sector. In addition, Ares formed Ares Commercial Real Estate Management LLC, an SEC-registered investment adviser, to manage its real estate funds, including Ares Commercial Real Estate Corporation (NYSE: ACRE), a publically traded real estate investment trust (REIT). The acquisition of Wrightwood Capital enabled Ares to extend their Private Debt capability of delivering flexible capital solutions to companies, into real estate and added approximately \$1.2 billion of AUM and over 40 employees to the Ares Private Debt Group. On July 1, 2013, Ares Management LLC completed the acquisition of AREA Property Partners, L.P., a top-tier real estate management firm investing across North America, Europe and India. The acquisition of AREA Property Partners enabled Ares to expand Ares' Real Estate expertise in opportunistic equity investing and mezzanine lending as well as their geographic reach in Europe and India, and add approximately \$6 billion of AUM and over 120 employees to the Ares Real Estate Group. The acquisition of Indicus Advisors closed at the end of 2011. Indicus Advisors is an investment manager based in London and New York. Ares has managed assets for SBCERA since July 2008. SBCERA's original \$215 Million equity is valued at almost \$480 Million at the end of June 2013. The 3 Year performance was 15.6% ranking in the first percentile of the peer group.

Ares is less well-known to NEPC, although they manage over \$650 Million in Assets and have performed well for those clients. The Proposed Structure will allow Ares to invest opportunistically across a broad range of Ares' existing and prospective strategies. Such prospective strategies include a Multi-Strategy Credit (which will serve as the primary vehicle for replacing the existing ECO strategy), Closed-end funds currently being marketed or structured that can be purchased at a discount (Including a European Loan Opportunities Fund and Global Structured Credit Fund), Closed-end Ares funds, and concept funds being considered.

All prospective investments will be review by an Allocation committee and be subject to SBCERA sign-off. Ares is offering an attractive fee structure for the SBCERA relationship. The fee structure offered is a 1% management fee, based on net asset value, with 20% performance fee over a hard hurdle of 5%, which we believe to be very competitive.



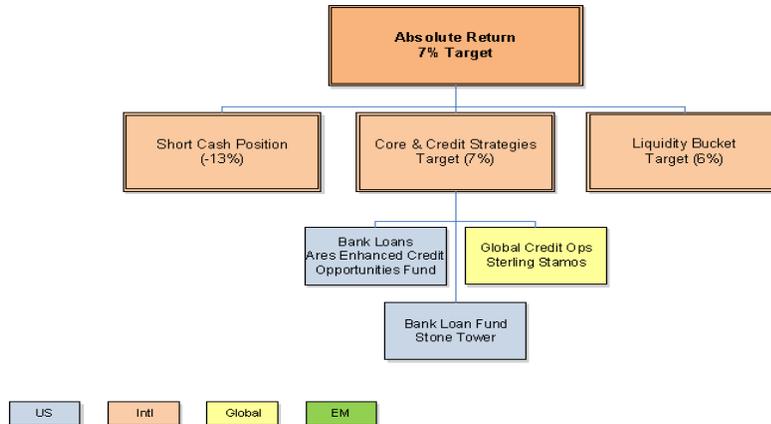
Attachment A

San Bernardino County Employees' Retirement Association

Alpha Pool Strategies Performance Detail

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank
<b>Alpha Pool Composite</b>	<b>1,332,017,641</b>	<b>18.9</b>	<b>0.7</b>	<b>6</b>	<b>9.5</b>	<b>17</b>	<b>9.5</b>	<b>17</b>	<b>10.6</b>	<b>12</b>	<b>5.1</b>	<b>50</b>	<b>--</b>	<b>--</b>
91 Day T-Bill + 3%			0.8	5	3.1	45	3.1	45	3.1	90	3.2	86	4.6	90
Over/Under			-0.1		6.4		6.4		7.5		1.9			
eA All Global Fixed Inc Gross Median			-2.5		2.1		2.1		5.2		5.1		5.7	
Alpha Liquidity (Ssga)	153,906,478	2.2	0.0	7	0.3	64	0.3	64	0.3	99	--	--	--	--
eA All Global Fixed Inc Gross Median			-2.5		2.1		2.1		5.2		5.1		5.7	
Ares Eco Alpha	477,938,935	6.8	-0.6	16	9.6	17	9.6	17	14.5	1	--	--	--	--
eA All Global Fixed Inc Gross Median			-2.5		2.1		2.1		5.2		5.1		5.7	
Sterling Stamos	168,864,386	2.4	0.5	7	4.5	33	4.5	33	2.0	98	-0.6	98	--	--
eA All Global Fixed Inc Gross Median			-2.5		2.1		2.1		5.2		5.1		5.7	
Stone Tower Off	326,403,945	4.6	2.2	2	12.8	6	12.8	6	12.7	4	--	--	--	--
eA All Global Fixed Inc Gross Median			-2.5		2.1		2.1		5.2		5.1		5.7	
Zais	200,233,896	2.8	1.8	3	18.2	1	18.2	1	36.1	1	17.7	1	--	--
eA All Global Fixed Inc Gross Median			-2.5		2.1		2.1		5.2		5.1		5.7	

Absolute Return Structure





Attachment B

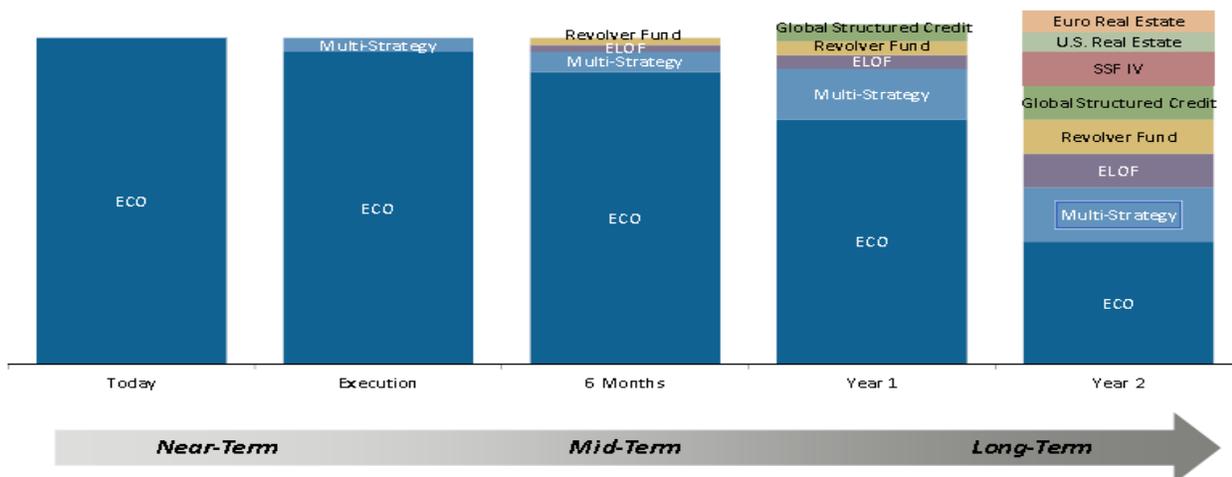
## Opportunities for Investment Across the Ares Platform

We believe potential investments of the Mandate fall into four primary categories at present

- Established open-ended funds and/or direct investments
  - Multi-Strategy Credit
- Closed-end funds currently being marketed or structured
  - Revolving Credit Strategies Fund
  - European Loan Opportunities Fund
  - Global Structured Credit Fund
- Closed-end Ares “family” funds
  - Special Situations Fund IV
- Concept funds currently being contemplated
  - U.S. Real Estate Debt Fund
  - European Real Estate Debt Fund

## Illustrative Asset Allocation of the Agreement Over Time

Anticipated Portfolio Composition Over Time



1. For Illustrative Purposes Only. The Fund's investment allocations in any given market environment will be determined by the investment adviser based on all relevant factors and may not match the examples and timing set forth. There can be no assurance future portfolios will exhibit similar compositions to that shown above.



## Appendix A Biographies

### Seth J. Brufsky

Mr. Brufsky is a Portfolio Manager in the Ares Capital Markets Group and a Founding Member of Ares. Mr. Brufsky is a Senior Partner of the Firm, serves on Ares' Management Committee and is an Investment Committee member on related Ares Capital Markets Group Funds. Mr. Brufsky also serves as a Director and President of Ares Dynamic Credit Allocation Fund, a publically traded closed end fund managed by an affiliate of Ares Management. Mr. Brufsky joined Ares in 1998 from the Corporate Strategy and Research Group of Merrill Lynch & Co., where he specialized in analyzing and marketing non-investment grade securities and was acknowledged by Institutional Investor as a member of the top-ranked credit analyst team each year of his tenure. Prior to joining Merrill Lynch, Mr. Brufsky was a member of the Institutional Sales and Trading Group of the Global Fixed Income Division at Union Bank of Switzerland. Mr. Brufsky serves on the Board of Directors of the Luminescence Foundation, a charitable giving organization. Mr. Brufsky graduated from Cornell University with a BS in Applied Economics and Business Management and received his MBA in Finance with honors from the University of Southern California's Marshall School of Business, where he was awarded the Glassick Scholarship for academic achievement.

### Americo Cascella

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

### Gregory A. Margolies

Mr. Margolies is the Head of the Capital Markets Group of Ares Management LLC and sits on the firm's Executive Committee. Mr. Margolies joined Ares Management in 2009 from Merrill Lynch & Co. where he served as a Managing Director and the Global Head of Leveraged Finance and Capital Commitments. In addition, he was a member of the Executive Committee for Merrill Lynch's Global Investment Banking group. Prior to joining Merrill Lynch, Mr. Margolies was the Co-Head of the DB Capital Mezzanine Fund. Mr. Margolies serves on the Board of Directors for the International Organization for Women & Development and the Advisory Council for University of Michigan's Life Science Institute. Mr. Margolies graduated with a B.A. in International Economics and Finance from the University of Michigan and received his M.B.A. from the University of Pennsylvania's Wharton School of Business.

### John H. Kissick

Mr. Kissick is a Senior Partner in the Ares Private Equity Group. Mr. Kissick is a Senior Advisor to the Ares Capital Markets Group and also serves on the Investment Committee on all Ares Management funds. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and a member of the original six-member management team. Together with Mr. Ressler, Mr. Kissick oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert Inc., where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars-Sinai Medical Center in Los Angeles, the Stanford University Athletic Department and its Initiative for Improving K-12 Education, and MLA Partner Schools which helps economically disadvantaged children graduate from high school through a variety of mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

### David A. Sachs

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

### John Bartling

John Bartling is the Co-Chief Executive Officer of ACRE, and also serves as a Director of ACRE and chairman of the manager's Investment Committee. Mr. Bartling joined Ares Management in September 2010 and serves as a Senior Partner in the Real Estate Group and as Co-Head of Real Estate. From May 2007 to September 2010, he was Managing Partner and Chief Investment Officer of AllBridge Investments, a portfolio company of Ares Capital Corporation. Prior to AllBridge, Mr. Bartling founded WMC Management Company, a privately held real estate operating company with over 3,000 employees. Mr. Bartling took Walden private as CEO in 2000, and sold it in March 2006 to a subsidiary of Dubai Investment Group. From December 1995 to October 1999, Mr. Bartling served as the CEO and President for Lexford, f/k/a Cardinal Realty, a publicly traded, fully integrated multifamily REIT. Before Lexford, Mr. Bartling served as Director of the Real Estate Products Group of Credit Suisse First Boston. Mr. Bartling's previous professional experience also includes Trammel Crow Residential, as a Development Principal, and Mellon Bank, N.A. as a Vice President of the Commercial Mortgage Banking Group. Mr. Bartling received a B.S. in Marketing from Robert Morris College in Pittsburgh, Pennsylvania.

### Kipp deVeer

Mr. deVeer has served as President of Ares Capital Corporation since May 2013. Mr. deVeer joined Ares Management in May 2004 and serves as a Senior Partner in the Private Debt Group of Ares Management LLC. He is a member of the Investment Committees of Ares Capital Management, the Ares Private Debt Group and ACE. Mr. deVeer is also a director of ACE. Prior to joining Ares, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.





---

**Presentation to SBCERA Board**  
September 10, 2013

# Disclaimer

These materials are not intended as an offer to sell, or the solicitation of an offer to purchase, any security whether of Ares Management LLC or its affiliated companies (collectively “Ares” or “Ares Management”) or of a sponsored investment vehicle, the offer and/or sale of which will be conducted through definitive offering documentation.. Nothing in these materials should be construed as a recommendation to invest in any securities or as legal, accounting or tax advice.

The information contained herein is confidential (other than information that is otherwise publicly available through no fault of recipient) and includes material proprietary non-public information respecting Ares, its investment activities and its various investment funds under management. An investment in any particular investment vehicle, including indicated portfolio companies, is discreet from other investment vehicles managed by Ares and as such while the performance of such other funds may be illustrative of the general investment experience of Ares and its affiliated investment managers, such performance as well as the corresponding investment portfolios and objectives of such funds are not necessarily indicative of results to be realized by the particular fund invested in.

The information contained herein is provided specifically to members of the Advisory Board of **Ares Enhanced Leveraged Investment Strategy VI L.P.** (the “Fund”) in their capacities as such. In that regard, information respecting portfolio companies and investments was not necessarily prepared with a view to public disclosure and/or in a manner consistent with US securities laws requirements but rather in the context of support for evaluation of the investment activities of the Fund. To the extent a portfolio investment involves public securities reference is made to the issuer’s publicly available filings with the Securities and Exchange Commission. Moreover, it is noted that, in light of dislocations in the capital markets and the general macro-economic environments, portfolio valuations are inherently volatile. In particular, information respecting valuations of portfolio investments has been prepared for internal purposes based on various operating and investment assumptions some of which are referenced herein and may not necessarily be indicative of actual amounts to be realized by the Fund.

By receipt hereof, recipient as a member of the Fund’s Advisory Board agrees to receive and maintain the information in these materials in a confidential manner and to neither (i) use any such information to the competitive detriment of Ares, (ii) disclose any such information to any third party (other than its tax and legal advisors as necessary), nor (iii) use any such information for other than its evaluation of Ares as an investment manager in the context in which it is provided herein. Further, by accepting this information, the recipient agrees that it will not use, and it will cause its directors, partners, officers, employees and representatives not to use, the information in a manner inconsistent with applicable securities laws including, for example, transactions in securities of issuers based on its possession of material non-public information. Any reproduction of this information, in whole or in part, is prohibited. Recipients are advised that United States securities laws restrict any person who has material, non-public information about a company from purchasing or selling securities of such company (including derivative securities of such company) and from communicating such information to any other person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell such securities. You agree not to purchase or sell such securities in violation of any such laws.

Ares does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein. Nothing contained herein shall be relied upon as a promise or representation whether as to the past or future performance. Certain of the information presented herein includes estimates and projections and involves significant elements of subjective judgment and analysis. Moreover, unless otherwise indicated, recipients are advised that information respecting prior performance presented on a gross basis is before giving effect to management and incentive fees, expenses, taxes or carried interest, the application of any of which would reduce such indicated performance. While the bases for the projections herein are believed to be reasonable, no representations are made as to the accuracy of such estimates or projections or that such projections will be realized.

Neither these materials nor the information presented herein have been reviewed, approved or recommended by any United States Federal or State Securities Commission or other domestic or foreign regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

These materials may contain “forward-looking” information respecting Ares and certain portfolio companies that is not purely historical in nature and may be identified by, among other things, use of words such as “anticipated,” “believes,” “expects,” “intends,” and similar expressions. Such information may include, among other things, projections, forecasts or estimates of cash flows, yields or returns, scenario analyses and proposed or expected portfolio composition. The forward-looking information contained herein is based upon certain assumptions about future events or conditions and is intended only to illustrate hypothetical results under those assumptions (not all of which will be specified herein). In addition, information related to past performance, while helpful as an evaluative tool, is not necessarily indicative of future results, the achievement of which cannot be assured. The past performance of Ares or the Fund should not be viewed as indicative of or a guaranty of any future results. Actual events or conditions are unlikely to be consistent with, and may differ materially from, those assumed. Accordingly, actual results will vary and the variations may be material. Investments in all asset classes are particularly volatile in the current financial environment and as such there can be no assurance as to either the underlying fundamental value of an investment or amounts that may be received over time or on realization, both of which are subject to intrinsic and external or indirect risks relating to credit markets and other factors. Certain of the information presented herein involves significant elements of subjective judgment and analysis. Moreover, there can be no assurance that future return performance or assumptions generally will be achieved. Unless otherwise indicated, financial information contained herein is as of the dates indicated. The delivery of these materials does not imply that any other information contained herein is current as of any time subsequent to the date listed on the cover hereto. Certain information contained herein has been obtained from sources believed to be reliable although Ares does not guarantee its accuracy, completeness or fairness. Opinions and estimates may change without notice. The statistical information provided herein has been supplied for “informational purposes” only and is not intended to be and does not constitute investment advice. Ares has not independently verified this information, and no representation or warranty is made, expressed or implied, as to the accuracy of the information provided in these charts.

# Proposed SBCERA Master Custody Agreement with Ares

## Executive Summary

---

The Proposed SBCERA Master Custody Agreement	5
--	---

## Overview of current SBCERA investment

---

Overview of the current relationship between SBCERA and Ares	7 – 8
--	-------

## Opportunities for future capital deployments

---

Opportunities for expanding the existing relationship across the Ares Platform	10
Phase 1: Established open-ended funds and/or direct investments	11
Phase 2: Closed-end funds currently being marketed or structured	12
Phase 3: Closed-end Ares “family” funds	13
Phase 4: Concept funds currently being contemplated	14
Illustrative Allocation of the SBCERA Account Over Time	15

## Evaluation of Investment Opportunities and Communication to SBCERA

---

Communication of potential investment opportunities	17
Organization of Committees for Proposed SBCERA Agreement	18
SBCERA Agreement Committee Member Biographies	19 - 21

# Executive Summary

---



# Executive Summary

**SBCERA and Ares have been in discussions to establish an investment mandate designed to access Ares' skillset in global opportunistic credit**

---

- The proposed SBCERA Master Custody Agreement (the “Agreement” or “Mandate”) is intended to leverage Ares’ broader investment platform to access investment opportunities in global opportunistic corporate credit
- Potential investments of the Agreement may occur via either investments in other Ares’ Funds, or via direct investments
- Potential investments will be sourced and evaluated by Mr. Seth Brufsky, Mr. Americo Cascella and Mr. Greg Margolies, whom together comprise the Allocation Committee
- Prospective Fund commitments or direct investments will be made through a combination of new capital commitments and diversification out of SBCERA’s existing ECO investment
- Investments are intended to be made on an opportunistic basis
- Investments must be approved by the CIO of SBCERA prior to execution

## Overview of the current relationship between SBCERA and Ares

---



# Overview of SBCERA's Investment in Ares ECO

## Ares' Relationship with SBCERA

---

SBCERA initially invested \$30 million in the ECO Fund in July 2008

The end of 2008 and beginning of 2009 witnessed one of the worst downturns in the history of the U.S. capital markets

- As bank loan and high yield bond markets traded down, vehicles utilizing short-term, market value financing began to trip covenants, leading to their unwinding and causing further pricing pressures in the credit markets
  - Ares raised equity in ECO at the end of October 2008
  - SBCERA elected to commit an additional \$15 million at this time
- Weakness in the capital markets continued through year-end 2008, as bank loans declined another 11% in Nov/Dec
  - Meaningful cushion levels in the ECO fund coupled with attractive total financing costs of LIBOR + 36bps helped drive SBCERA's decision to invest an additional \$15 million in January 2009
- While bank loans rallied during the first quarter of 2009, trading volumes were light and volatile
  - Structured funds with market value covenants or shorter-lived financing periods continued to face difficulties
  - SBCERA, invested in a vehicle facing such constraints, worked with Ares to address the upcoming maturity without having to liquidate the portfolio into the current distressed market
  - ECO purchased the majority of the assets within this SBCERA account, preserving SBCERA's equity value in the vehicle by rolling it into ECO, resulting in an additional \$140 million investment in March 2009
- With capital markets in the midst of recovery and the credit markets trading at historically wide spreads, SBCERA made an additional \$15 million investment in ECO in March 2010
- **SBCERA's original \$215 million equity capital is worth \$477.9 million at the end of June 2013**, with each of SBCERA's commitments, including the initial, pre-crisis investment, having generated positive returns

## SBCERA Investment Performance

Through June 2013, SBCERA's invested capital has more than doubled in value experiencing a 20.0% annualized return <sup>1</sup>

Series	Initial Investment	30-Jun-13	Net ITD (Annualized) <sup>2</sup>
Class B1 7-01-08 Series	\$ 30.0	\$ 33.7	2.3%
Class B1 10-31-08 Series	15.0	35.3	20.1%
Class B1 1-01-09 Series	15.0	41.8	25.6%
Class B1 3-11-09 Series	140.0	344.4	23.2%
Class B1 3-01-10 Series	15.0	22.8	13.4%
<b>Total <sup>1</sup></b>	<b>\$ 215.0</b>	<b>\$ 477.9</b>	<b>20.0%</b>

1. Total performance is calculated as the investor's net IRR since inception, which is an annualized return calculated after the effects of management fees, carried Interest, and operating and administrative expenses. Actual expenses allocated to the investors are used for this calculation.
2. Net ITD (annualized) performance is Inception-to-Date (annualized) performance and is based upon the initial investment amount and the NAV of that investment series as of June 30, 2013. Both NAV and performance results are net of all fees and expenses.

# Proposed Opportunities for the Agreement

---



# Opportunities for Investment Across the Ares Platform

We believe potential investments of the Mandate fall into four primary categories at present

---

- Established open-ended funds and/or direct investments
  - Multi-Strategy Credit
  
- Closed-end funds currently being marketed or structured
  - Revolving Credit Strategies Fund
  - European Loan Opportunities Fund
  - Global Structured Credit Fund
  
- Closed-end Ares “family” funds
  - Special Situations Fund IV
  
- Concept funds currently being contemplated
  - U.S. Real Estate Debt Fund
  - European Real Estate Debt Fund

# Phase 1: Established open-ended funds and/or direct investments

## Immediate diversification is available via Ares' Multi-Strategy Credit Fund

---

- An allocation to multi-strategy credit provides a similar return profile as ECO, with an increased focus on stressed / distressed and structured product credit opportunities
- The largest positions in Multi-Strategy Credit will comprise a larger portion of the overall portfolio versus ECO, resulting in top conviction names driving a greater portion of overall returns
- As a result, while underlying assets remain corporate credit, since inception Multi-Strategy Credit is able to provide immediate diversification benefits to the Mandate
- Additionally, Multi-Strategy Credit has similar liquidity characteristics as ECO, enabling the Mandate to remain invested until other fund or direct investment opportunities arise

## Phase 2: Closed-end funds currently being marketed or structured

### Commitments to capital drawn down funds will further enhance the global reach and diversification of the Agreement

- Ares is in process of structuring three funds that we believe fit the profile of the Agreement
  - **Revolving Credit Strategies Fund** - Regulatory changes are expected to alter the economics of revolvers for banks, creating a market opportunity that the Fund will be specifically designed to capitalize on
  - **European Loan Opportunities Fund** - The growing supply / demand imbalance in the European leveraged loan market paired with improved credit structures provides an attractive investment opportunity for non-bank direct lenders
  - **Global Structured Credit Fund** - Focus on structured asset investments that we believe offer attractive investment characteristics by taking advantage of bank deleveraging / asset dispositions / lack of lending for a variety of structured assets
- We anticipate that commitments to the above funds would take place over the next 3 – 12 months
- Full deployment of capital into each fund however would likely take 1 – 2 years

*Utilizing the Mandate's investments in ECO and Multi-Strategy Credit as a source of liquidity will enable the Mandate to remain invested until capital draws occur*

## Phase 3: Closed-end Ares “family” funds

Further opportunities in the next offering of Ares “family” funds is designed to overweight cycle opportunities as credit market conditions evolve

---

- Ares has managed dedicated funds focused on non-control distressed opportunities
  - **Special Situations Fund IV** - Focus on non-control, stressed and distressed opportunities principally within the North American corporate credit markets and are comprised of stressed / distressed debt, post-reorganization equity, distressed CLO debt and equity and DIP, exit and rescue financings
- Such funds are targeted to be raised to take advantage of default cycles
- We believe our dedicated stressed/distressed investment team has successfully executed upon its strategy in earlier vintages, and is well positioned to continue executing on the strategy going forward
- We anticipate that commitments to the above funds would take place over the next 1 – 2 years
- Full deployment of capital would like occur 1 – 2 years thereafter

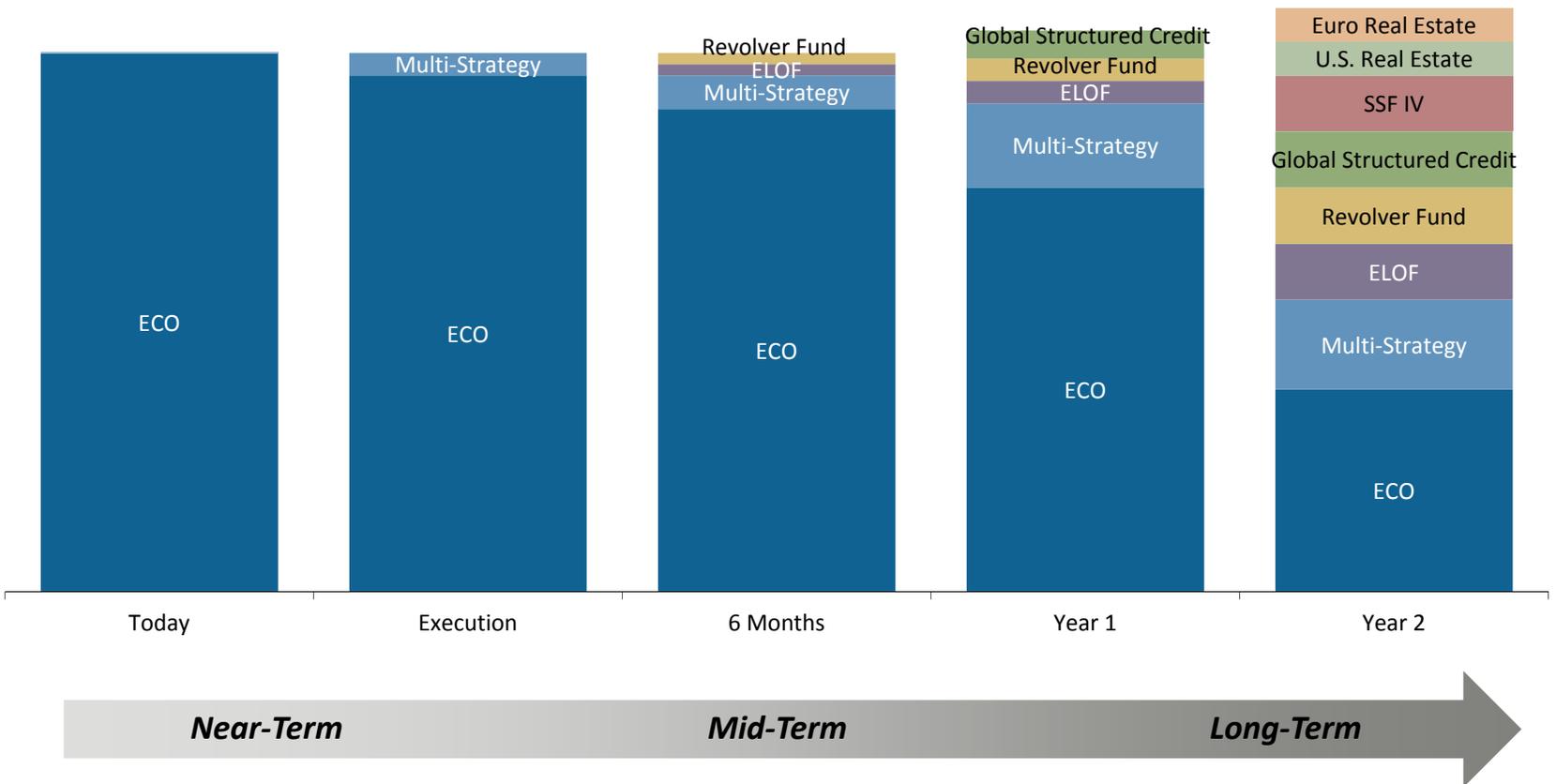
## Phase 4: Concept funds currently being contemplated

With established real estate teams in place, we are contemplating real estate debt funds in both the U.S. and Europe, which could provide the Mandate with additional credit exposure

- Ares has an established commercial real estate debt origination team in place in the U.S.
- Such activities are operated through a publically traded commercial real estate investment trust that trades on the NYSE under the ticker symbol ACRE
  - Additional privately funded capital raises focused on direct lending to commercial real estate properties have been contemplated and could be a potential fit for the Agreement
- Additionally, with the acquisition of AREA Property Partners, which closed July 1, 2013, Ares' Commercial Real Estate Group expanded both its global reach as well as its product offering
  - We anticipate that the ability of European banks to extend credit to will remain limited given their current over-leveraged state as well as increased capital requirements associated with the Basel III framework
  - With an established presence in Europe within the Capital Markets and Private Debt Groups, we have contemplated expanding our direct lending presence into Europe through our Commercial Real Estate Group
  - Such an expansion could be a potential fit for the Agreement given its focus on global opportunistic credit
- Concept funds are in the preliminary stage of discussions with potential timing likely to occur over a longer term horizon

# Illustrative Asset Allocation of the Agreement Over Time

## Anticipated Portfolio Composition Over Time



1. For Illustrative Purposes Only. The Fund's investment allocations in any given market environment will be determined by the investment adviser based on all relevant factors and may not match the examples and timing set forth. There can be no assurance future portfolios will exhibit similar compositions to that shown above.



## Evaluation of Investment Opportunities and Communication to SBCERA

---



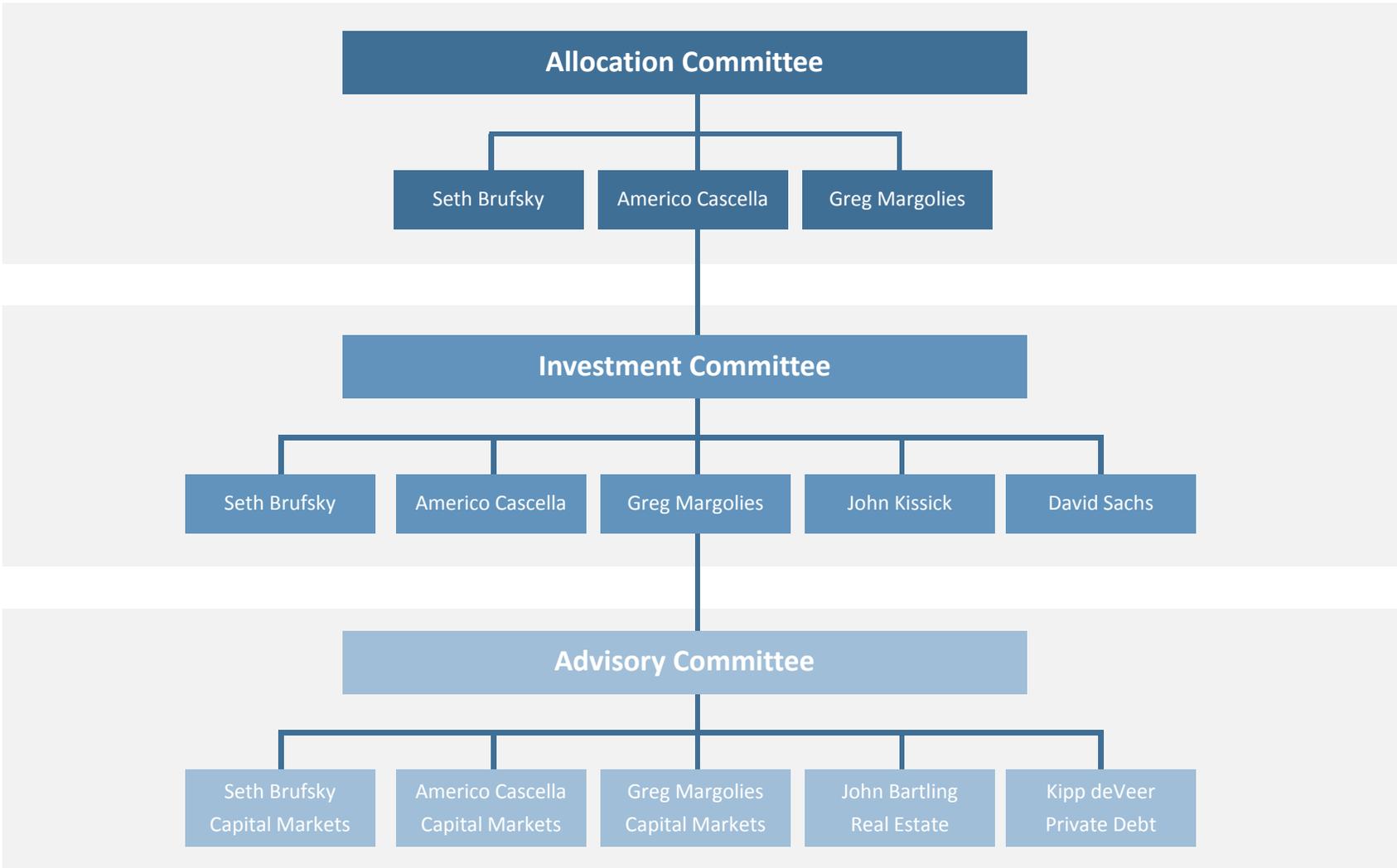
# Communication of Potential Investment Opportunities

**On an ongoing basis, Ares will evaluate investment opportunities within the global opportunistic corporate credit space for potential allocation to the SBCERA mandate**

---

- The SBCERA Agreement will leverage Ares' broader investment platform to identify and source investment opportunities focused on global opportunistic corporate credit
- Potential investments of the Mandate will be evaluated by Mr. Seth Brufsky, Mr. Americo Cascella and Mr. Greg Margolies, together the Allocation Committee
  - Each potential investment opportunity will be evaluated on its own merits, in consideration of the goals of the Agreement, in determining whether an investment recommendation will be made
  - Existing allocation of the portfolio inclusive of any outstanding commitments will also be taken into consideration to ensure proper diversification across the Mandate is maintained
- Upon reaching a positive investment decision, the Allocation Committee will issue a recommendation to the SBCERA investment team detailing the following
  - Background and merits of the investment, including strategy and objective in the case of fund investments
  - Recommended size and timing of the investment
  - Compliance with the Investment Plan, Policy and Guidelines of the investment
- Upon receipt of written approval from the CIO of SBCERA, such investment or commitment will be permitted to be executed

# Organization of Committees for Proposed SBCERA Agreement



# SBCERA Agreement Committee Member Biographies

## **Seth J. Brufsky**

Mr. Brufsky is a Portfolio Manager in the Ares Capital Markets Group and a Founding Member of Ares. Mr. Brufsky is a Senior Partner of the Firm, serves on Ares' Management Committee and is an Investment Committee member on related Ares Capital Markets Group Funds. Mr. Brufsky also serves as a Director and President of Ares Dynamic Credit Allocation Fund, a publically traded closed end fund managed by an affiliate of Ares Management. Mr. Brufsky joined Ares in 1998 from the Corporate Strategy and Research Group of Merrill Lynch & Co., where he specialized in analyzing and marketing non-investment grade securities and was acknowledged by Institutional Investor as a member of the top-ranked credit analyst team each year of his tenure. Prior to joining Merrill Lynch, Mr. Brufsky was a member of the Institutional Sales and Trading Group of the Global Fixed Income Division at Union Bank of Switzerland. Mr. Brufsky serves on the Board of Directors of the Luminescence Foundation, a charitable giving organization. Mr. Brufsky graduated from Cornell University with a BS in Applied Economics and Business Management and received his MBA in Finance with honors from the University of Southern California's Marshall School of Business, where he was awarded the Glassick Scholarship for academic achievement.

## **Americo Cascella**

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

## **Gregory A. Margolies**

Mr. Margolies is the Head of the Capital Markets Group of Ares Management LLC and sits on the firm's Executive Committee. Mr. Margolies joined Ares Management in 2009 from Merrill Lynch & Co. where he served as a Managing Director and the Global Head of Leveraged Finance and Capital Commitments. In addition, he was a member of the Executive Committee for Merrill Lynch's Global Investment Banking group. Prior to joining Merrill Lynch, Mr. Margolies was the Co-Head of the DB Capital Mezzanine Fund. Mr. Margolies serves on the Board of Directors for the International Organization for Women & Development and the Advisory Council for University of Michigan's Life Science Institute. Mr. Margolies graduated with a B.A. in International Economics and Finance from the University of Michigan and received his M.B.A. from the University of Pennsylvania's Wharton School of Business.

## SBCERA Agreement Committee Member Biographies (cont.)

### John H. Kissick

Mr. Kissick is a Senior Partner in the Ares Private Equity Group. Mr. Kissick is a Senior Advisor to the Ares Capital Markets Group and also serves on the Investment Committee on all Ares Management funds. Prior to Ares, Mr. Kissick was a co-founder of Apollo Management, L.P. in 1990 and a member of the original six-member management team. Together with Mr. Ressler, Mr. Kissick oversaw and led the capital markets activities of Apollo Management, L.P. and Lion Advisors, L.P. from 1990 until 1997, particularly focusing on high yield bonds, leveraged loans and other fixed income assets. Prior to 1990, Mr. Kissick served as a Senior Executive Vice President of Drexel Burnham Lambert Inc., where he began in 1975, eventually heading its Corporate Finance Department. Mr. Kissick serves on the boards of the Cedars-Sinai Medical Center in Los Angeles, the Stanford University Athletic Department and its Initiative for Improving K-12 Education, and MLA Partner Schools which helps economically disadvantaged children graduate from high school through a variety of mentoring and other programs. Mr. Kissick graduated from Yale University with a BA in Economics and with highest honors from the Stanford Business School with an MBA in Finance.

### David A. Sachs

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

### John Bartling

John Bartling is the Co-Chief Executive Officer of ACRE, and also serves as a Director of ACRE and chairman of the manager's Investment Committee. Mr. Bartling joined Ares Management in September 2010 and serves as a Senior Partner in the Real Estate Group and as Co-Head of Real Estate. From May 2007 to September 2010, he was Managing Partner and Chief Investment Officer of AllBridge Investments, a portfolio company of Ares Capital Corporation. Prior to AllBridge, Mr. Bartling founded WMC Management Company, a privately held real estate operating company with over 3,000 employees. Mr. Bartling took Walden private as CEO in 2000, and sold it in March 2006 to a subsidiary of Dubai Investment Group. From December 1995 to October 1999, Mr. Bartling served as the CEO and President for Lexford, f/k/a Cardinal Realty, a publicly traded, fully integrated multifamily REIT. Before Lexford, Mr. Bartling served as Director of the Real Estate Products Group of Credit Suisse First Boston. Mr. Bartling's previous professional experience also includes Trammell Crow Residential, as a Development Principal, and Mellon Bank, N.A. as a Vice President of the Commercial Mortgage Banking Group. Mr. Bartling received a B.S. in Marketing from Robert Morris College in Pittsburgh, Pennsylvania.

# SBCERA Agreement Committee Member Biographies (cont.)

## **Kipp deVeer**

Mr. deVeer has served as President of Ares Capital Corporation since May 2013. Mr. deVeer joined Ares Management in May 2004 and serves as a Senior Partner in the Private Debt Group of Ares Management LLC. He is a member of the Investment Committees of Ares Capital Management, the Ares Private Debt Group and ACE. Mr. deVeer is also a director of ACE. Prior to joining Ares, Mr. deVeer was a partner at RBC Capital Partners, a division of Royal Bank of Canada, which led the firm's middle market financing and principal investment business. Mr. deVeer joined RBC in October 2001 from Indosuez Capital, where he was Vice President in the Merchant Banking Group. Mr. deVeer has also worked at J.P. Morgan and Co., both in the Special Investment Group of J.P. Morgan Investment Management, Inc. and the Investment Banking Division of J.P. Morgan Securities Inc. Mr. deVeer received a BA from Yale University and an MBA from Stanford University's Graduate School of Business.

