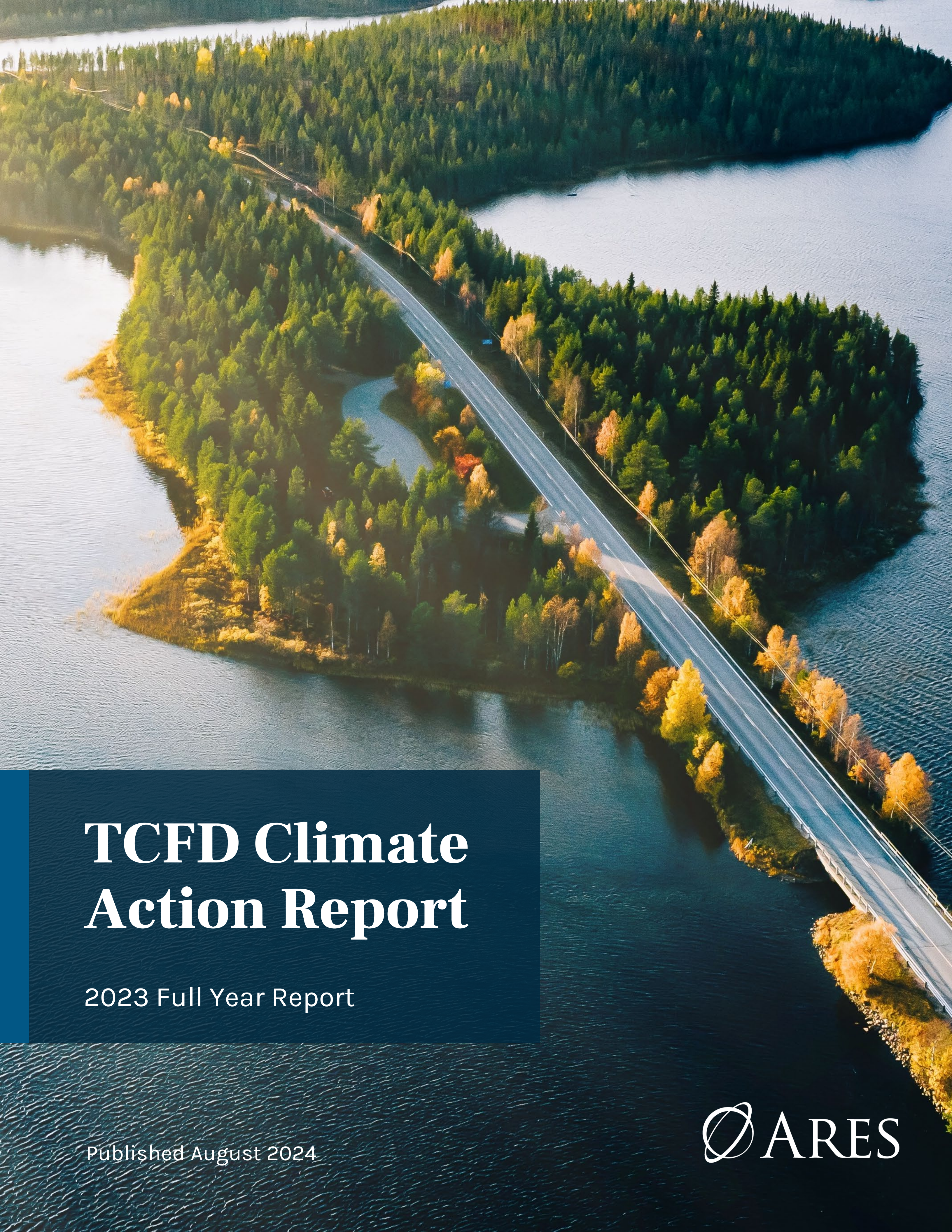


TCFD Climate Action Report

2023 Full Year Report

Published August 2024

ARES

Introduction

Ares believes positive climate outcomes can create and preserve financial value across the global economy. We therefore have an important role to play in helping our portfolio companies and assets manage physical and transition risks from climate change, while seeking to proactively invest in climate solutions that enable a just transition to a lower-carbon economy.[1]

Global private markets have reached the "rubber hits the road" phase of decarbonization, as we've seen a shift from conceptual commitments to practical action on climate. Evolving regulations and investor priorities mean that consideration for climate is becoming more pervasive. Market expectations on disclosures, target-setting, and emissions reductions have become more rigorous and specific. In the past year, the publication of the Private Markets Decarbonization Roadmap[2] gave investment managers and limited partners a consistent framework for tracking portfolio company decarbonization, and the share of Fortune Global 500 companies with a public climate commitment reached approximately 2/3.[3,4] Our portfolio companies, like many of their peers, have seen an increase in requirements from major customers to address emissions, reinforcing the role of decarbonization as a prospective commercial value driver and differentiator.

At Ares, we seek to take a transparent, rigorous, and data-driven approach to our climate initiatives. We emphasize efforts that can help reduce emissions in the short-term to drive value. We engage portfolio companies and assets on material climate topics including energy efficiency, renewable energy, procurement, fleet decarbonization, risk management, and product development. Though there is a robust debate on the role of environmental, social, and governance (ESG) and climate considerations in private markets, we believe a pragmatic approach rooted in efforts to mitigate risk and unlock value creation is the right course.

Key climate themes at Ares in 2023 were measurement, engagement, and scale. Notable milestones included:

1. Developed the Ares Climate Transition Program (ACT Program) to proactively engage portfolio companies, sponsors, and assets on material decarbonization approaches to help drive value and manage risk.[5]
2. Expanded coverage of our portfolio carbon footprint to include 82% of invested assets (up from 35% last year), giving us a clearer picture of our emissions profile and associated risks and opportunities.
3. Further embedded climate into business processes and job responsibilities across the firm—including hiring our first global ESG Climate Strategy Lead—while scaling beyond pilots and focusing on wide adoption.
4. Continued to invest in diverse climate opportunities, committing $4.1 billion to ~45 climate infrastructure assets and companies since 2015—including renewable natural gas, wind energy, and electric vehicle charging.

Ares is proud to publish our third Climate Action Report to highlight our response to the current and expected impacts of climate change globally. In alignment with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD), this report describes our approach to climate across governance, strategy, risk management, and metrics & targets.

> "In 2023, Ares delivered on several climate milestones. Having previously established a solid foundation, we increased our focus on scale and practical application, conducting data-driven assessments of climate risks and opportunities across the portfolio and expanding our initiatives in response. As the energy transition accelerates, we believe our practical approach to climate positions us well to create lasting value for investors and portfolio companies."
>
> **Michael Arougheti**
> Director, Co-Founder, CEO and President of Ares

2023 Highlights and 2024 Goals[6]

GOVERNANCE

2023 Progress

- Hired Ares' first Climate Strategy Lead on the ESG team to oversee climate initiatives across asset classes and corporate operations
- Convened global Ares Climate Action Group (CAG) for our third and largest Climate Summit
- Engaged with the Enterprise Risk Committee (ERC) and Executive Management Committee (EMC) on our three-year climate strategy, progress towards goals, and updates on risks and opportunities
- Conducted climate trainings for 200+ stakeholders throughout the firm

2024 Look Ahead

- Engage the ERC on a portfolio climate risk assessment process to inform future risk management strategies
- Form issue-specific working groups within the CAG on topics that may include carbon accounting, climate risk, and portfolio decarbonization
- Continue to build climate literacy through trainings on both technical and strategic topics for frontline employees
- Continue to deliver periodic updates to ERC, Partners Committee, and members of the EMC on our three-year climate strategy
- Expand the ESG climate team to enable more efficient scaling

STRATEGY

2023 Progress

- Developed the Ares Climate Transition Program (ACT Program) to proactively engage the portfolio on decarbonization and climate risk management
- Created method to track portfolio company alignment to the Private Markets Decarbonization Roadmap (PMDR)
- Continued to invest in diverse climate opportunities, committing $4.1 billion to ~45 climate infrastructure assets and companies since 2015
- Piloted climate engagements with portfolio companies in several asset classes
- Continued implementation of our three-year climate strategy
- Participated in external initiatives on emerging climate frameworks for private markets—including PCAF, iCI, PMDR, Ceres, and PRI's Private Debt Advisory Committee

2024 Look Ahead

- Launch the ACT Program
- Scale climate engagements with portfolio companies and expand available tools, events, and resources on decarbonization
- Implement system for tracking and forecasting the impact of portfolio company decarbonization programs
- Seek opportunities to scale investments into the energy transition
- Continue to engage with external initiatives on emerging climate frameworks for private markets

2023 Highlights and 2024 Goals[6]

RISK MANAGEMENT

2023 Progress

- Continued implementation of climate risk management strategies, including integration into due diligence where material and relevant
- Held climate risk trainings for the CAG and other key stakeholders
- Evaluated methods, vendors, and tools for portfolio-wide climate risk assessment and scenario analysis, including both transition and physical risk
- Engaged stakeholders in the Private Equity, Credit, and Infrastructure groups to draft a potential framework for evaluating companies in carbon-intensive industries during due diligence

2024 Look Ahead

- Develop due diligence principles for companies in carbon-intensive industries and aim to implement scorecard to assess credibility of decarbonization plans and targets for portfolio companies, as applicable
- Launch a more intensive portfolio-wide climate risk assessment process in partnership with selected vendors
- Identify sectors, asset classes, and regions with elevated climate risk for additional due diligence

METRICS & TARGETS

2023 Progress

- Expanded coverage of financed emissions footprint from 35% of invested assets in 2022 to 82% in 2023
- Onboarded a new climate software provider—Watershed—to streamline emissions reporting and provide advanced analytics
- Improved accuracy and consistency of financed emissions footprint through surveys, public data sources, and estimation enhancements
- Estimated and worked to reduce our operational emissions at the management company level, including offsetting these emissions for the fourth consecutive year

2024 Look Ahead

- Analyze financed emissions footprint to identify “hotspots” in the portfolio and seek to implement what we believe are high-impact, value-accretive engagement opportunities
- Work with portfolio companies to build capacity for improved emissions measurement
- Consider expanding the financed emissions footprint to cover additional strategies and funds

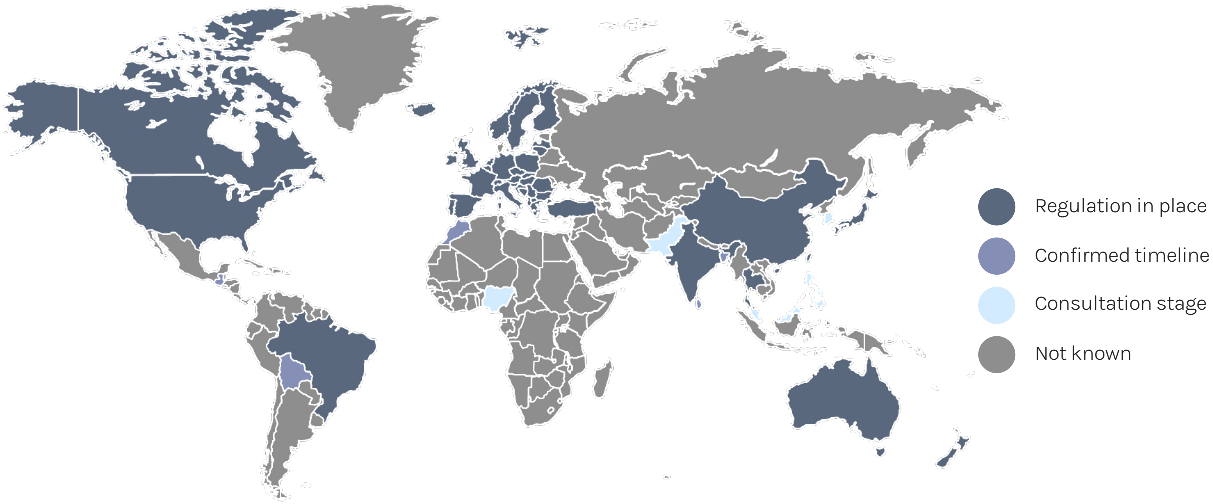
Evolution of Climate Disclosures

This annual Ares Climate Action Report is aligned with the recommendations of the TCFD. Ensuring transparency, consistency, and year-over-year comparability of climate disclosures is vital to our investors and stakeholders. Ares is committed to providing annual climate reporting to improve the quality and coverage of our carbon emissions data and risk management programs, which improves our ability to measure and disclose our exposure to climate-related risk. We also acknowledge that the quality of climate-related data in private markets is still developing, which limits our ability to fully align with the recommendations of TCFD and global climate disclosure regulations.

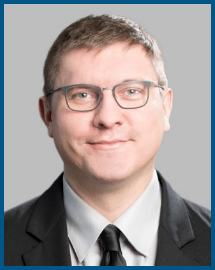
Throughout 2023, Ares continued to track expanding regulatory requirements around TCFD-aligned disclosures for the corporate and financial sectors. The TCFD officially fulfilled its remit and disbanded in 2023, and governance of climate-related financial reporting officially transitioned to the International Financial Reporting Standards (IFRS) as part of the International Sustainability Standards Board (ISSB) in 2024. However, TCFD remains a useful framework with widespread adoption that is directly referenced by regulators. In its final report, TCFD noted that nearly 4,500 global companies with a collective market capitalization of almost $30 trillion support TCFD.[7] We plan to continue to monitor the new IFRS standards and evaluate possible alignment of future reports.

To highlight our progress to date and commitment to continued improvement, we have established forward-looking goals across each of the TCFD pillars: governance, strategy, risk management, and metrics & targets.

Figure 1: Examples of Global Climate Reporting Regulations[8]



> “The past few years have seen the rapid maturation of market expectations and regulatory requirements on climate. At the same time, pathways to decarbonization are coming into focus for a wider range of sectors and regions. As a firm with a strong history of climate action and disclosure, we see both trends as an opportunity to create value and work towards near-term portfolio emissions reductions."
>
> **Joe Indvik**
> Climate Strategy Lead, ESG Team



Governance

Summary

2023
Progress

Hired Ares' first Climate Strategy Lead on the ESG team to oversee climate initiatives across asset classes and corporate operations

Convened global Ares Climate Action Group (CAG) for our third and largest Climate Summit

Engaged with the Enterprise Risk Committee (ERC) and Executive Management Committee (EMC) on our three-year climate strategy, progress towards goals, and updates on risks and opportunities

Conducted climate trainings for 200+ stakeholders throughout the firm

2024
Goal

Engage the ERC on a portfolio climate risk assessment process to inform future risk management strategies

Form issue-specific working groups within the CAG on topics that may include carbon accounting, climate risk, and portfolio decarbonization

Continue to build climate literacy through trainings on both technical and strategic topics for frontline employees

Continue to deliver periodic updates to ERC, Partners Committee, and members of the EMC on our three-year climate strategy

Expand the ESG climate team to enable more efficient scaling

Governance

Ares' climate governance approach aims to drive key workstreams by providing engaged executive oversight, promoting proactive collaboration across asset classes and corporate operations, and empowering frontline employees who are most responsible for day-to-day execution.

A. Overview

Ares believes that effective management of climate initiatives requires clarity on roles and responsibilities. To that end, we have established the three-tiered approach in Figure 2:

Figure 2: Governance of climate initiatives

Set direction

Report on progress

OVERSIGHT

Board of Directors

Oversight of corporate strategy and risk, receiving updates on ESG at least annually

Executive Management Committee

- Responsible for oversight of climate-related initiatives & integration into business strategy
- Chaired by CEO, attended by 16 additional senior leaders
- Members receive periodic updates on ESG and climate-related initiatives by Global Head of ESG

Enterprise Risk Committee

- Responsible for oversight of risk management framework and controls
- Chaired by Head of Enterprise Risk, attended by Global Head of ESG
- Receives updates on ESG and climate-related initiatives at least annually by Global Head of ESG

STRATEGY & DELIVERY

Climate Action Group

Delivery and collaboration across climate-related initiatives

Investment Platform Climate Champions

Corporate Climate Champions

ESG Team

- Responsible for cross-platform collaboration and delivery of function- and strategy-specific climate initiatives
- Climate Action Group consists of ~60 members and observers representing investment strategies and climate-relevant corporate functions, alongside the ESG team and the ESG Climate Strategy Lead
- Meets annually in person to set strategy, alongside quarterly councils to monitor and drive progress, in addition to regular meetings with frontline employees at the working group level

IMPLEMENTATION

Ares Frontline Employees

- Responsible for implementing climate-related initiatives on a day-to-day basis. Local champions partner with frontline employees in their respective teams to design and implement strategy- and function-specific plans and to monitor and drive implementation
- Employees receive periodic ESG updates at townhall events, investment committees, and function-specific team meetings, in addition to broader sustainability training on-demand via our e-learning portal

B. Key Developments

Over the past year, Ares enhanced our climate governance across our three tiers of Oversight, Strategy & Delivery, and Implementation:

1. **ESG Climate Strategy Lead:** In 2023, Ares hired its first Climate Strategy Lead on the ESG team to oversee our climate initiatives—including accelerating portfolio company engagement on decarbonization, enhancing climate risk evaluation and disclosure, embedding climate initiatives into the investment process, and supporting deal teams to identify and work to capture opportunities resulting from the energy transition.
2. **Climate Action Group expansion:** Our CAG grew to over 60 climate champions and observers. Led by the Climate Strategy Lead with support from the broader Ares ESG team, the CAG draws from employees across asset classes and corporate functions and creates a forum for collaboration. The members of the CAG hold regular meetings on climate workstreams and gather annually for our global Climate Summit. In 2023, CAG members stepped up to drive progress on efforts including carbon accounting, portfolio decarbonization, and climate risk management.
3. **Education and capacity-building:** Over the last several years, Ares has taken steps to ensure that understanding of climate issues extends beyond our dedicated ESG team. We held trainings for CAG members and frontline employees including (1) a primer on carbon accounting, (2) regional climate trainings for Europe and Asia, and (3) break-out sessions on advanced topics at the Climate Summit. We continued to offer access to climate and ESG training modules to our employees in Workday, our e-learning platform. In addition, we hosted an Environmental Defense Fund (EDF) Climate Corps fellow for the second year in a row, helping develop an emerging climate leader while accelerating our work on emissions reductions.

Spotlight

Our largest-ever Climate Summit

Nearly 100 Ares staff gathered in New York City and virtually for the third Ares Climate Summit in December 2023, including members of the CAG from across asset classes and corporate functions. The theme for 2023 was **"Decarbonizing at Speed and Scale."** The Summit featured more than 20 internal and external speakers across a full day of panels, case studies, discussions, and break-out sessions.

During the event, Ares colleagues shared best practices, discussed common decarbonization challenges, and charted a path to scale for 2024 and beyond. Highlights included a panel of Ares portfolio company executives that are leading the charge on climate, as well as technical breakouts with external experts on topics like science-based targets, climate regulation, and decarbonizing the built environment.

Major takeaways from the day:

- Ares is proactively addressing heightened commercial and regulatory pressure to act on climate.
- Pathways to decarbonization are becoming clearer, but capacity and resource constraints at the portfolio company level remain a challenge.
- Additional climate data is critical to success and requires continuous improvement.
- Practical portfolio engagement and investment in climate solutions is a commercial opportunity for value creation.

C. Looking Ahead

We feel Ares has established a strong foundation for governance by embedding climate responsibilities throughout the firm. Future efforts will focus on continued transparency, standardization of approach, and more extensive collaboration on specific climate issues.

Climate vision and leadership: With our dedicated Climate Strategy Lead, expanded CAG, and launch of the ACT Program featured in this report, we aim to take a unified approach to climate initiatives in 2024 and beyond. This means articulating a shared vision for our decarbonization roadmap and streamlining initiatives in support of it.

Expanded working groups: To achieve that vision, we plan to organize the CAG into additional issue-specific working groups with clearly defined mandates, including expanding the existing Fossil Fuel Working Group. Topics may include:

- **Carbon accounting & data:** Going beyond annual emissions reporting to ensure we have the right analytics and tools to support data-driven portfolio engagement.
- **Climate risk assessment:** Evaluating firmwide climate risks—including physical and transition—and integrating into due diligence as appropriate.
- **Portfolio decarbonization:** Developing a scalable approach to engage portfolio companies on emissions reductions as part of the ACT Program

Team Growth: We plan to continue building climate capacity on our ESG team by bringing on additional team members, including another full-time climate professional and our third-annual EDF Climate Corps summer fellow.

Case Study

Expanding renewables in Asia

In 2023, Ares Asia Private Credit invested in Continuum Energy, a renewable energy generation company with wind and wind-solar hybrid projects operating across Asia, focusing on the Indian submarket. As of December 2022, the Company had 1.3GW, with 2.3GW cumulative installed capacity expected by the end of 2024. Continuum is actively contributing to the Indian renewable energy target of installing 500 GW of non-fossil fuel energy capacity by 2030.[9] With more than 50% of its customer base in the commercial & industrial sector, Continuum helps small and medium businesses meet their energy sustainability goals. Additionally, the unique nature of hybrid wind-solar projects positions the company as a first mover in the power producer space and provides much-needed support to address India's peak power supply deficits.

As a major wind energy producer, Continuum Energy uses considerably less water than what is used for traditional coal-based power generation. India is a water-stressed country and more than 88% of the water needed for industrial use is consumed by coal-based power plants.

Continuum Energy is also focused on climate resilience in its operations. The company has planted 4,551 trees at its operating locations and uses continuous contour trenches as a watershed management technique to conserve rainwater at some of its wind sites.

Strategy

Summary

2023
Progress

Developed the Ares Climate Transition Program (ACT Program) to proactively engage the portfolio on decarbonization and climate risk management

Created method for tracking portfolio company alignment to PMDR

Continued to invest in diverse climate opportunities, including committing $4.1 billion to ~45 climate infrastructure assets and companies since 2015

Piloted climate engagements with portfolio companies in several asset classes

Continued implementation of our three-year climate strategy

Participated in external initiatives on emerging climate frameworks for private markets—including PCAF, iCI, PMDR, Ceres, and PRI's Private Debt Advisory Committee

2024
Goal

Launch the ACT Program

Scale climate engagements with portfolio companies and expand available tools, events, and resources on decarbonization

Implement system for tracking and forecasting the impact of portfolio company decarbonization programs

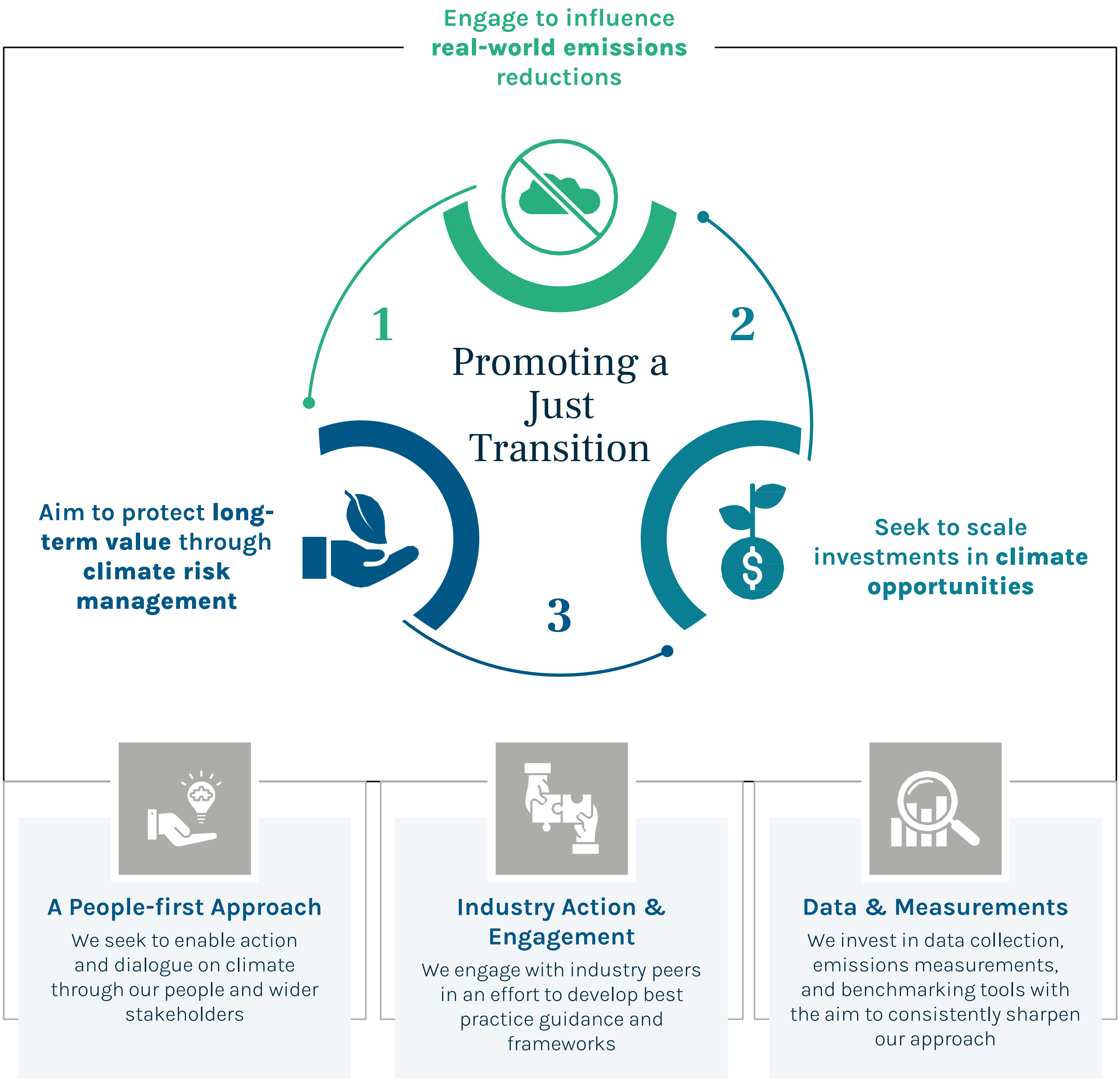
Seek opportunities to scale investments into the energy transition

Continue to engage with external initiatives on emerging climate frameworks for private markets

Strategy

We launched a strategic planning process at the close of 2022 to refresh our climate approach with a three-year forward-looking view. In 2023, we built on this framework to drive progress on several climate initiatives. Figure 3 describes desired outcomes and enablers to our approach. While we have high conviction behind this framework, we plan to adapt as needed moving forward.

Figure 3: The Ares climate framework



A. Engage to Influence Real-world Emissions Reductions

We work to enable emissions reductions through tangible actions that can generate and preserve value for Ares and our investors. This approach has two major elements: portfolio engagement and integration of climate considerations into our day-to-day work across investment strategies. This requires a balance between addressing the unique realities of each asset class while maintaining a cohesive vision and systemized approach to climate considerations at Ares.

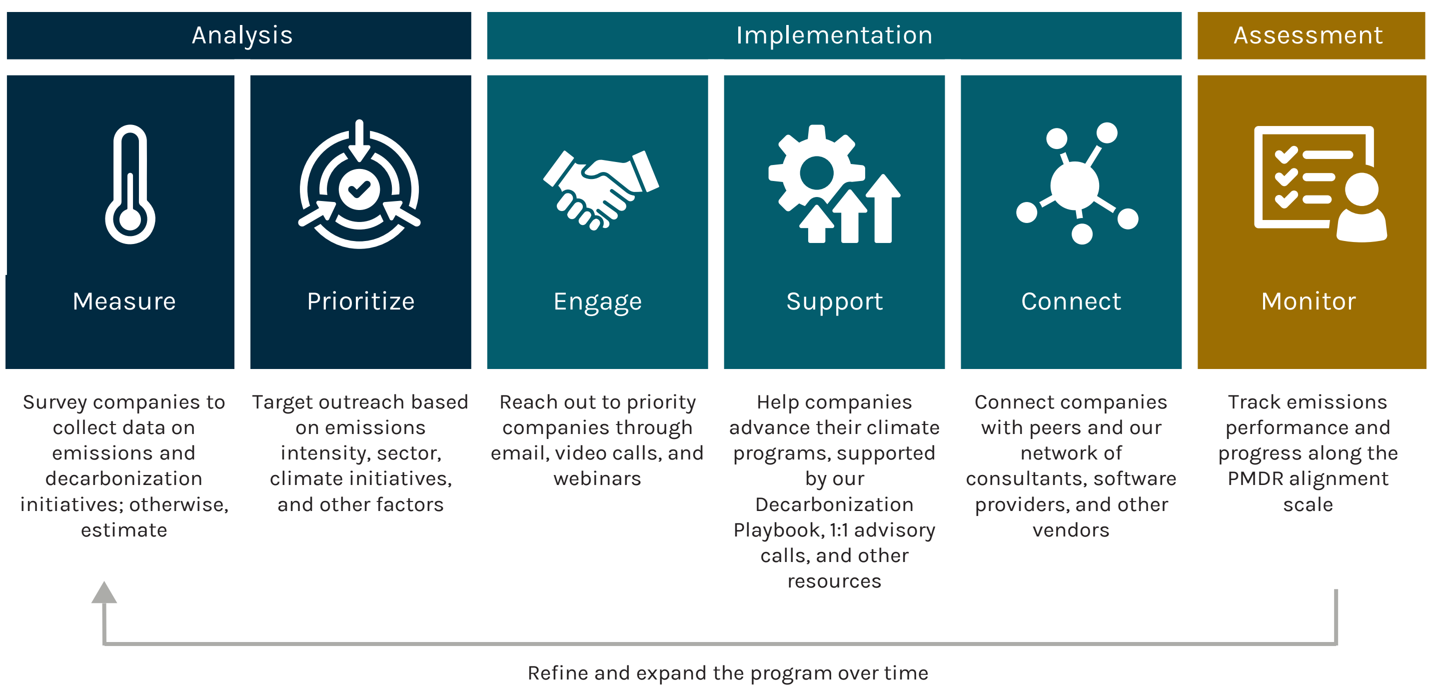
Launching a New Engagement Initiative

Ares Climate Transition Program

In 2023, we developed the ACT Program to help create and preserve value by empowering our portfolio to decarbonize. The program is driven by a core idea: while the pathways to decarbonization for a diverse portfolio are still coming into focus, Ares and our portfolio companies can take meaningful, short-term action now.

The ACT Program provides a unified platform to engage our portfolio companies, sponsors, and assets—meeting them where they are and helping them advance along their climate journey. Through materiality-based approaches tailored to sector, geography, and relationship with each company, we aim to include most major asset classes and regions. For example, we may engage majority-owned companies more intensively with customized support, whereas we may take a more scalable approach—through webinars or working groups—to engage borrowers in the direct lending portfolio. As shown in Figure 4, the ACT Program follows a consistent firmwide process for portfolio engagement, which can be adapted as necessary:

Figure 4: ACT Program implementation plan



To support these objectives, the ACT Program is:

- **Driven by data and process**: allowing us to prioritize engagements where we believe we can help drive increased value and emissions impact
- **Backed by the Ares platform of resources:** including toolkits, vendor partnerships, training, and direct support from the Ares ESG team
- **Aligned to the Private Markets Decarbonization Roadmap:** enabling us to consistently monitor portfolio company progress along the PMDR alignment scale (See "The PMDR Alignment Scale" spotlight)
- **Built on a vision for a just transition:** embracing the long-term challenge of inclusive and equitable decarbonization while driving action

We are pleased to officially announce the ACT Program in this report. After developing the program in 2023 and holding pilot engagements with a small group of portfolio companies, we plan to scale the program in 2024.

Spotlight

The PMDR Alignment Scale

Ares has adopted the Private Markets Decarbonization Roadmap (PMDR) alignment scale as a consistent way to categorize a portfolio company's progress on decarbonization.[10] Companies receives a score between 0 and 4, which can then be plotted against emissions intensity and other metrics to inform engagement, as appropriate. For example, companies with high emissions intensity but a low PMDR alignment score may be prime engagement targets because they are more likely to have uncaptured opportunities for near-term emissions reductions, particularly if they are in a sector with well-understood pathways to decarbonization.

Score	Stage	Description
0	Not Started	No action taken on emissions measurement or decarbonization
1	Capturing Data	Reporting emissions data but no decarbonization plan in place
2	Preparing to Decarbonize	Decarbonization plan in place but no science-aligned reduction target
3	Aligning	Near-term, science-based reduction target in place
4	Aligned to Net Zero	Delivering against net zero target and demonstrating annual reductions

Integrating Climate Action into Asset Class Goals

Like last year, most Ares investment strategies once again incorporated climate-related goals into their 2024 business plans, tied to the overall objective of seeking to maximize investment returns and protect long-term value for our investors. These goals were formally integrated into the firmwide planning and budgeting processes to create accountability, while being adapted to each strategy as needed.

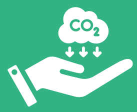
While climate goals varied from team to team, three common themes this year were (1) improving emissions measurement, whether by collecting more self-reported data or expanding carbon accounting estimates to a wider share of the portfolio; (2) engaging with portfolio companies and assets to incorporate decarbonization into goals and business plans; and (3) increasing deployment of capital into ESG-linked financing.[11] The case study below outlines an initiative launched by our private equity business to address its goal of increasing the share of majority-owned portfolio companies conducting bottom-up emissions measurement and, where appropriate, setting reduction targets.

Case Study

Building capacity for emissions measurement in private equity

In 2023, Ares expanded the emissions measurement program established within the Private Equity Corporate Opportunities strategy, focused on our majority-owned control companies. Through this program, we directly supported companies representing $3.2 billion of invested capital to date in completing their first-ever Scope 1 and 2 emissions baselines. These footprints were done via a series of projects—typically in the companies' first year of ownership—led by environmental consulting firm SLR and coordinated by the Ares team.

By providing this support, Ares helped to:



Provide an emissions baseline for companies that can inform decarbonization and possible target-setting

Build capacity for the companies to continue this work independently in future

Raise awareness at the management team level about the importance and utility of carbon accounting

More broadly, this program enables Ares to measure and assess potential transition risk across our portfolio, prepare these businesses for existing and potential emissions disclosure regulations, and support them in identifying potential opportunities to cut both emissions and energy costs.

By the end of 2023, three majority-owned companies had established emissions reduction goals—a commitment made possible, in part, by having robust emissions measurement in place.

B. Seek to Scale Investments into Climate Opportunities

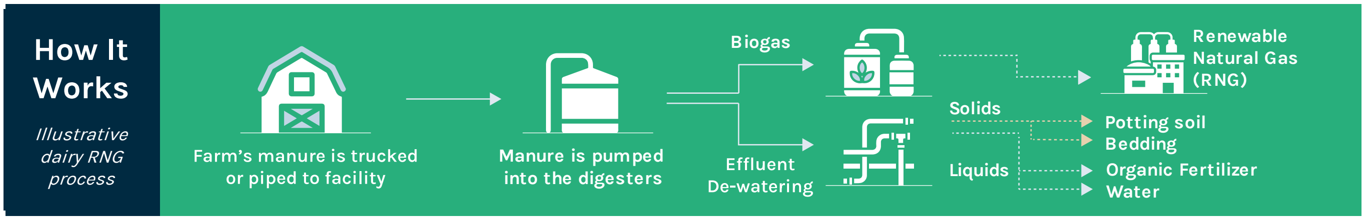
Ares continues to seek to invest in the transition to a lower-carbon economy. For example, the Ares Infrastructure Opportunities (AIO) team closed its inaugural flagship climate fund Ares Climate Infrastructure Partners (ACIP) in 2021 with approximately $1.4 billion in total fund commitments raised inclusive of GP commitments, and $800 million in related transaction vehicles.[12] As of the end of 2023, ACIP and related transaction vehicles have invested and committed over $2.7 billion in capital toward assets and projects that will help facilitate a decarbonized future.

In 2023, AIO continued to focus on sectors that we believe are critical to the energy transition, such as renewable power, energy storage, electrification, resource efficiency, and green digital.[13] In recognition of this work, the AIO team was named Energy Transition Investor of the Year for North America in the 2022 Infrastructure Investor Awards.[14]

Since 2015, the AIO team has committed $4.1 billion to ~45 climate infrastructure assets and companies. We believe climate infrastructure will continue to represent a significant, multi-decade investment opportunity for Ares going forward.

Case Study

Powering the transition with renewable natural gas



In 2023, funds managed by AIO made strategic investments in two companies focused on renewable natural gas (RNG): Burnham RNG and Dynamic Renewables. RNG, also known as biogas, is produced by upcycling waste streams, often via anaerobic digestion, and converting the produced methane into a high-quality, low-carbon renewable transportation fuel. The U.S. Environmental Protection Agency estimates lifecycle emissions from waste-derived RNG can be up to three times lower than that of traditional fossil gas.

Burnham's current focus is on municipal and industrial wastewater and agricultural waste as feedstock. The platform is underpinned by the Pasco Resource Recovery Center (PRRC), an under-construction asset in the Tri-Cities area in Washington state, which, when operational, will serve as a replacement to the city of Pasco's existing, undersized, and aging wastewater treatment infrastructure. PRRC will take influent wastewater from nearby food processing facilities and provide treatment services under a thirty-year, fixed price agreement with the municipality. Effluent from the facility will include clean water for the municipality for irrigation and low-carbon RNG, to be sold to the gas utility via long-term contract. Burnham is also evaluating development opportunities to expand its wastewater treatment and renewable natural gas production capabilities.

Dynamic is primarily focused on the upcycling of dairy manure into RNG, clean water and associated nutrients for reuse on farms. The Dynamic platform is underpinned by BC Organics (BCO), a large dairy-to-RNG facility that uses 16 anaerobic digestion tanks to process manure from over 25,000 cows across 11 farms, as seen in the image above. BCO is designed to provide partner farms clean water that is "recycled" through the digesters and cow bedding and nutrient-rich digestate generated from the facility, promoting a "closed-loop" circular economy.

C. Aim to Protect Long-term Value Through Climate Risk Management

We view climate risk management as a critical tool to protect and promote long-term value across our business. To help prioritize these risks, we have evaluated the TCFD risk drivers—policy & legal, technology, market, and reputation—at both the firm and investment levels. In addition, we have evaluated potential opportunities resulting from the transition to a lower-carbon economy. The outcomes are shown in Figures 5 and 6 below.

Recognizing that the methods and tools used to quantify climate risk are still in their infancy, this qualitative assessment of potential risks does not reflect a quantitative assessment of financial exposure. In 2023, we reviewed a range of possible methodologies and vendors through which Ares could deepen and expand this analysis. In 2024, we have set the goal of launching a more detailed portfolio-wide climate risk assessment process (see Risk Management section).

Assessment of Climate Transition Risks

In 2022, the Ares ESG team evaluated 13 drivers of corporate and investment risk shown in Figure 5. Through this assessment, the policy & legal risk group had the highest potential for material risks as climate related regulations continued to proliferate across the globe. Since the risk assessment in 2022, we believe policy & legal risks remain potentially material. In addition, continuously changing market conditions have required the Ares ESG and investments teams to work to stay ahead of market expectations in order to mitigate risk. Technology solutions continue to proliferate through asset classes, presenting potential increased opportunities rather than solely risks. Through proper governance, Ares is equipped to mitigate reputational risk.

Figure 5: Drivers of climate-related corporate and investment risk[15]

Risk Group	Risk Driver	Corporate	Investments
Policy & Legal	Increasing carbon taxes		
	Increasing emissions disclosure regulation		
	Mandates on products and services		
	Exposure to litigation		
Technology	Substitution of existing products and services		
	Unsuccessful investment in new technologies		
	Costs to transition to new technologies		
Market	Resource/expertise required to align to new market expectations		
	Failure to adapt strategy in line with evolving market expectations		
	Increased cost of capital/insurance for assets in high risk sectors		
Reputation	Growth in greenwashing perceptions associated with the company/sector		
	Failure to attract and retain staff due to failures in sustainability strategy		
	Collective action/boycotting of specific sectors		

Low Risk Impact Score | High Risk Impact Score

Assessment of Climate Opportunities

In addition to reviewing our major risks across the organization and at our investments, in 2022 we also reviewed potential climate opportunities for our corporate actions and investments shown in Figure 6. The most relevant opportunities for Ares have been identified in the products & services and energy source groups, with resource efficiency, resilience, and markets presenting smaller opportunities. Ares continues to investigate these opportunities through our investment activities and to improve our corporate opportunities.

Figure 6: Opportunities resulting from the climate transition[15]

Group	Opportunities	Corporate	Investments
Resource Efficiency	Transition to lower emission modes of transport		
	Transition to more remote working		
	Energy efficiency measures in buildings		
	Transition to circular models and waste reduction		
Energy Source	Transition to renewable/clean energy sources		
	Adoption of policy/tax incentives from clean energy		
	Investments into new/next generation energy solutions		
	Participation in carbon markets		
Products & Services	Reduce footprint of existing products and services		
	Launch new sustainable/transition products and services		
	Launch climate adaptation/insurance risk solutions		
	Scale investments into climate R&D and innovation		
Resilience	Scale investments into services for emerging markets		
	Partner with development funds/public sector capital		
Markets	Scale investments/opportunities in new markets		
	Widespread adoption drives down cost of new technologies		
	Stronger demand for lower emissions options		
	Stronger climate risk management drives down cost of capital		

Low Opportunity — High Opportunity

D. Enablers of a Just Transition

There are three key enablers that support each of the desired outcomes of the Ares climate framework:

People-First Approach

Taking a people-first approach means proactively engaging with, listening to, and incorporating the views of the Ares staff and stakeholders affected by our work on climate. It also means considering the impact of the lower-carbon transition—as well as Ares' own corporate efforts on decarbonization and climate risk management—on the communities where we invest. This includes helping to reskill for a decarbonized economy to enable individuals to be better prepared for climate-resilient jobs through efforts like CREST, highlighted below.

Spotlight

Climate-Resilient Employees for a Sustainable Tomorrow (CREST)

On Earth Day 2022, the Ares Foundation launched CREST, a 5-year, $25 million program designed to reduce economic inequality by training a skilled workforce for green jobs. The program focuses on preparing and reskilling marginalized communities, including women, people of color, and people of low socioeconomic status. The Ares Foundation has partnered with Jobs for the Future, World Resources Institute (WRI), and WRI India to execute on the mission of CREST. At the end of 2023, the program had placed over 25,000 individuals in green jobs in the U.S. and 1,000 workers in India's automotive and textile sectors.

Industry Action & Engagement

Decarbonization and climate risk management are rapidly evolving disciplines in the alternative investment management space and across the global economy. Ares views industry engagement as a useful forum to explore challenging areas such as emissions measurement, risk assessment, and emissions reduction pathways. Through these positions, we can engage the broader community on best practices and learn from our peers.

Ares participates in several climate-focused industry groups, including:

- **Partnership for Carbon Accounting Financials (PCAF):** We are a member of PCAF and participate in a variety of events and working groups to help the industry move towards more accurate, consistent, and transparent options for carbon accounting.
- **UNPRI Private Debt Advisory Committee (PDAC):** We are a founding member and current chair of the UNPRI PDAC within which we are co-leading the climate working group that aims to distill and share best practice across the industry.
- **Initiative Climat International (iCI):** Ares sits on the North American Operating Committee of the iCI, a working group of sponsors in the Private Equity community focused on sharing climate-related best practices. We also served on the advisory group for the PMDR, which was released in 2023.
- **Ceres:** We participate in the Ceres Private Equity Working Group on Climate Change and the Ceres Infrastructure Working Group.

Data & Measurements

Data plays a central role in our climate strategy, enabling an improved prioritization of our efforts and ongoing monitoring of their effectiveness. In 2023, we expanded and deepened the role of the ESG Data Working group—a committee of select ESG and IT team members and our Climate Strategy Lead tasked with improving and streamlining our overall approach to management of ESG and climate data. The ESG Data Working Group led several process and technology improvements to our data systems this year, including onboarding our first enterprise carbon accounting software solution. See the Metrics & Targets section for more detail.

Case Study

Doncaster net zero carbon construction

In 2023, the Ares Real Estate Group — together with partners Winvic, Sunrise, and Panattoni—completed our first net zero embodied carbon development[16] of an approximately 40,000 square meter industrial warehouse development in the U.K.. By measuring the impact of planned materials via a whole life cycle carbon assessment, the team was able to swap traditional building materials for low-carbon and recycled alternatives. Overall, the project reduced estimated lifetime embodied carbon emissions (defined as the building's emissions from construction, materials production, and delivery through eventual demolition) to 450 kg CO_2e/m^2, which is over 30% less embodied carbon emissions compared to the voluntary U.K. standard set by the Royal Institute of British Architects 2025 target. To achieve net zero embodied carbon, the project purchased 10,575 units of carbon credits, which address carbon emissions that couldn't be reduced via material selection and construction method changes.

The same design choices that led to decreased embodied carbon will also help the property run more efficiently and maintain low operational carbon emissions during the lifespan of the property, which may also lower tenant utility costs. Reduced operational carbon emissions are also achieved by the installation of on-site solar photovoltaic panels and a building design expected to achieve an Energy Performance Certificate (EPC) A rating for the warehouse section of the asset and EPC A+ in the office section, while also achieving a BREEAM Excellent green building certification.

Select embodied and operating carbon emission reduction strategies at the Doncaster project included:

- **Slab and foundation:** Used a lower carbon cement with 36% higher recycled content compared to standard cement; additionally, cement was procured from a local supplier less than 20km from the project site, resulting in a 73% reduction in transportation emissions
- **Steel frame:** Reduced the intumescent paint coverage to 75% and swapped traditional steel for a product with over 20% recycled steel
- **Heating and cooling:** Implemented all HVAC systems with a Green Guide A/A+ rating, a scale to assess the environmental impacts of building materials
- **Insulation:** Installed additional wall and roof insulation to reduce heating and cooling requirements

Risk Management

Summary

2023
Progress

Continued implementation of climate risk management strategies, including integration into due diligence where material and relevant

Held climate risk trainings for the CAG and other key stakeholders

Evaluated methods, vendors, and tools for portfolio-wide climate risk assessment and scenario analysis, including both transition and physical risk

Engaged stakeholders in the Private Equity, Credit, and Infrastructure groups to draft a potential framework for evaluating companies in carbon-intensive industries during due diligence

2024
Goal

Develop due diligence principles for companies in carbon-intensive industries and aim to implement scorecard to assess credibility of decarbonization plans and targets for portfolio companies, as applicable

Launch a more intensive portfolio-wide climate risk assessment process in partnership with selected vendors

Identify sectors, asset classes, and regions with elevated climate risk for additional due diligence

Risk Management

At Ares, we view addressing climate risk as part of our responsibility for prudent risk management on behalf of our investors and other stakeholders. As part of the Ares Responsible Investing program, we have outlined a framework for managing climate risk during the investment cycle, from deal sourcing through realization.

A. Integration into the Investment Process

Recognizing that methodologies for evaluating climate risk are still in their infancy, we have taken a proportionate approach to considering the materiality of climate risk within the investment process. As such, approaches to climate risk vary by asset class depending on the varying levels of control, access to data, and hold periods. To help support investment professionals in performing these risk assessments, the ESG team, in partnership with our climate champions, have implemented several initiatives, including providing general and strategy-specific training, frameworks, and data tools.

Figure 7 outlines each stage of the investment process and Ares' objectives when considering climate risk. Investment teams are responsible for identifying the specific risk management steps that are most relevant to their respective strategy, based on level of influence, anticipated investment period, and other factors.

Figure 7: Managing climate risks across the investment lifecycle

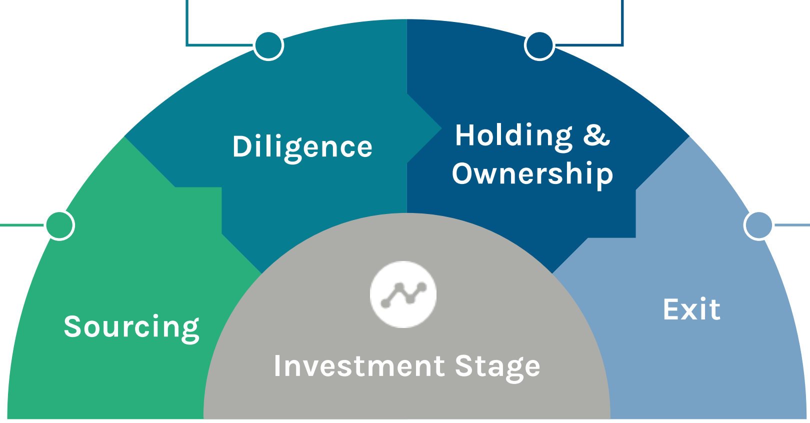
Key Objectives

- Screen for investment opportunities that might be exposed to significant physical or transition risk
- Seek out investment opportunities that could benefit from the energy transition (e.g., renewable energy, energy efficiency, clean transport, etc.)

- Where material, assess physical and transition risks that could negatively impact the value of the investment throughout the holding/ownership period
- Where material, identify climate-related value creation opportunities

- Manage climate-related risks and opportunities through ongoing monitoring and engagement with select portfolio companies and assets, with a focus on investments that present the greatest climate-related risks
- Collect climate-related data from select portfolio companies and assets
- Selectively engage with management teams to consider setting goals to manage climate-related risks and opportunities

- Where possible, track qualitative and quantitative progress made on climate-related topics over our investment period



Note: No assurance that all activities or elements outlined will pertain to every investment.

Case Study

Physical risk mitigation across the real estate platform

Across our real estate platform, Ares has incorporated physical climate risk assessments into our diligence process for equity and debt investments, and we aim to update this information annually for our standing assets and loans. In addition to information obtained through standard acquisition or development diligence, Ares Real Estate also uses a third-party, web-based platform that provides real-time insights into potential physical climate risk exposure based on an asset's location. This compares the site against seven main risk factors: wildfires, earthquakes, floods, hurricanes and typhoons, sea level rise, water stress, and heat stress.

As part of the acquisition for equity investments, we include potential mitigants as part of our assessment and within the final Investment Committee summaries. Given the increasing frequency of extreme weather events, we have focused on resilience and mitigation measures at properties undergoing major renovations, new developments, and when we have identified potentially material climate risks at equity investments. In addition, we obtain appropriate types and levels of insurance coverage based on catastrophe modeling analyses. Below are measures we've taken to mitigate the impacts of floods and hurricanes in the U.S.

Flood Risk (NY, CA, NJ)

- Purchased deployable flood gates with pre-installed anchors surrounding the ground floor perimeter of a building in NYC
- Raised site/building elevations in CA while placing related electrical equipment out of the floodplain (see photo above)
- Addressed flood control in NJ by creating a drainage swale to divert water and runoff away from a building to mitigate 100-year flood events

Hurricane Risk (FL)

- Used thoughtful architectural designs to minimize wind loads (building orientation and design features)
- Installed electrical gear and quick connections for ease of connecting trailer-mounted generators during emergency
- Installed impact-rated windows and doors
- Used enhanced roof connection tie-downs

B. Transition Risk for Emissions-Intensive Assets

Though emission-intensive investments represent a relatively small portion of the Ares portfolio, they arguably present the highest exposure to climate transition risk. For example, we estimate that fossil fuels represent less than 5% of our invested assets that have been footprinted, but they are exposed to substantial market and regulatory risk. We have taken two major steps to help address this risk from high-emitting assets:

The Fossil Fuel Working Group

At Ares, we recognize the reality that, despite the accelerating deployment of renewable and low-carbon energy, fossil fuels still represent the majority of global energy supply today. As an asset manager, our main focus is to generate returns on behalf of our investors, which is why we encourage the adaptation of our fossil fuel assets to maintain profitability within a decarbonizing economy. Given this context, Ares plans to remain a responsible steward of these assets to support their energy transition planning.

To structure and formalize our approach, we established a Fossil Fuel Working Group in 2022. The group is formed of senior investment professionals focused on the energy sector from across our Infrastructure, Private Equity, Global Liquid Credit, and Direct Lending strategies. The group was tasked with drafting an engagement framework for our fossil fuel assets, which it continued to refine throughout 2023.

The core pillars of this framework are outlined in Figure 8, along with examples of potential actions that Ares may take within each of these pillars. Each of these actions is assessed within the context of Ares' ambition to seek to generate long-term risk-adjusted returns while promoting a just transition to a lower-carbon economy.

Figure 8: Fossil Fuel Working Group objectives and potential activities

STRATEGIC PILLARS

Promote Transparency	Provide Resources	Encourage Action	Track Progress
Increasing firmwide and portfolio company/asset disclosures	Equipping Ares teams and portfolio company management teams with the tools they need	Leveraging financial incentives to drive progress	Measuring improvement over time

ILLUSTRATIVE EXAMPLES

Disclose our firmwide exposure to fossil fuel assets	Create carbon reduction playbooks and programming	Link Ares' financings to climate KPIs	Monitor emissions data year-on-year
Collect/estimate emissions data from our portfolio annually	Generate thought leadership	Offer sustainability-linked terms to borrowers	Develop engagement escalation plans
Encourage annual ESG reporting efforts at portfolio companies/assets	Leverage Ares' in-house expertise to drive operating efficiencies	Incorporate climate-related incentives	Revisit engagement strategy

Evaluation of Emissions-Intensive Investments

In addition to the standard climate-related due diligence outlined in Figure 7, we engaged stakeholders from select strategies in 2023 to begin drafting a framework for evaluating climate-related risks relevant to companies in carbon-intensive industries during due diligence. This includes methods for identifying potentially high-emitting assets through estimation and data collection, as well as a process for reviewing decarbonization plans and targets and the extent to which they may mitigate transition risk. We plan to further refine and pilot this framework in 2024.

C. Looking Ahead

At Ares, measurement and management of the climate risk from our investments has been conducted on a materiality basis, guided by the key objectives outlined in Figure 7 but targeted at the parts of the portfolio expected to experience the most material risks.

In 2023, we evaluated a range of possible methods, vendors, and tools for portfolio climate risk assessment and scenario analysis, including both transition and physical risk. In 2024, we plan to launch a more intensive climate risk assessment process that may include:

- **High-Level risk screening:** Develop a "heat map" of key sectors, regions, and investment types with elevated climate risk, which can help prioritize further assessment or refinement of due diligence criteria.
- **Emissions & decarbonization assessment:** Refine and pilot a framework to help deal teams evaluate climate-related risks for companies in carbon-intensive industries during due diligence, including review of existing decarbonization plans and targets.
- **Due diligence criteria review:** Conduct an evaluation of existing climate-related due diligence criteria across strategies and consider improvements and standardization where applicable.

Metrics & Targets

Summary

2023 Progress

Expanded coverage of financed emissions footprint from 35% of invested assets in 2022 to 82% in 2023

Onboarded a new climate software provider—Watershed—to streamline emissions reporting and provide advanced analytics

Improved accuracy and consistency of financed emissions footprint through surveys, public data sources, and estimation enhancements

Estimated and worked to reduce our operational emissions at the management company level, including offsetting these emissions for the fourth consecutive year

2024 Goal

Analyze financed emissions footprint to identify “hotspots” in the portfolio and seek to implement what we believe are high-impact, value-accretive engagement opportunities

Work with portfolio companies to build capacity for improved emissions measurement

Consider expanding financed emissions footprint to cover additional strategies and funds

Metrics & Targets

At Ares, data provides the foundation for our climate program. It allows us to better manage climate-related risks and opportunities throughout the portfolio and prioritize engagement efforts. In 2023, Ares expanded the collection of climate data significantly, increasing coverage of our portfolio carbon footprint and improving our understanding of risks at various levels of granularity.

A. Financed Emissions

Improvement and Expansion

Ares has now calculated and disclosed our financed emissions footprint—categorized as Scope 3 – Category 15 under the Greenhouse Gas Protocol—for the second year in a row. In 2023, we expanded coverage of the footprint from 35% to 82% of our invested assets globally while working to improve data quality and reducing reliance on estimations. The footprint now includes 700+ fund entities and separately managed accounts, 2,400+ portfolio companies, and 1,300+ real assets from across the investment strategies detailed in Figure 9.[17]

This expansion was driven by a firmwide effort to centralize and streamline collection of financial, company, and emissions data in partnership with Watershed, our new enterprise carbon accounting software. As a result, we are developing a more precise understanding of our portfolio emission profile, along with decision-useful insights that will help drive the ACT Program and our overall climate strategy (see "Building an integrated emissions data system" case study).

Methodology

We calculated our financed emissions in line with the PCAF framework—the industry standard for carbon accounting in financial services. Financed emissions represent Ares' attributable share of the Scope 1 and 2 and select Scope 3 emissions of our portfolio companies and assets. Though the results are unaudited, Watershed and the methodologies for most estimations have been third-party verified.

We include emissions from the following data sources, in order of priority:

1. Reported by the company publicly or to Ares in our annual ESG survey
2. Calculated or estimated via a specialized third-party software tool (for certain strategies)[18]
3. Estimated using a top-down sectoral method[19]

We feel it is important to calculate the Scope 3 emissions of portfolio companies as it often represents the largest portion of their emissions profile and therefore may provide insight to potentially material climate-related risks and opportunities. However, Scope 3 data tends to be less accurate due to the complexity of measurement and inconsistency across categories measured and included in company disclosures.[20] The combination of Scope 1 and 2 is often a more meaningful barometer of company emissions performance. Therefore, we separately disclose emissions by scope as recommended by PCAF, and we report metrics for various combinations of scopes to improve transparency. When estimating Scope 3 emissions for companies that do not disclose them, we include upstream emissions (Categories 1-8) for all companies and certain downstream emissions (Categories 9-12) for the industries where reasonable assumptions are available. We do not estimate the remaining downstream sources (Categories 13-15).

Results

The results of our financed emissions footprint are shown in Figure 9 and 10.

Figure 9: Share of Global Invested Assets Footprinted (2023)

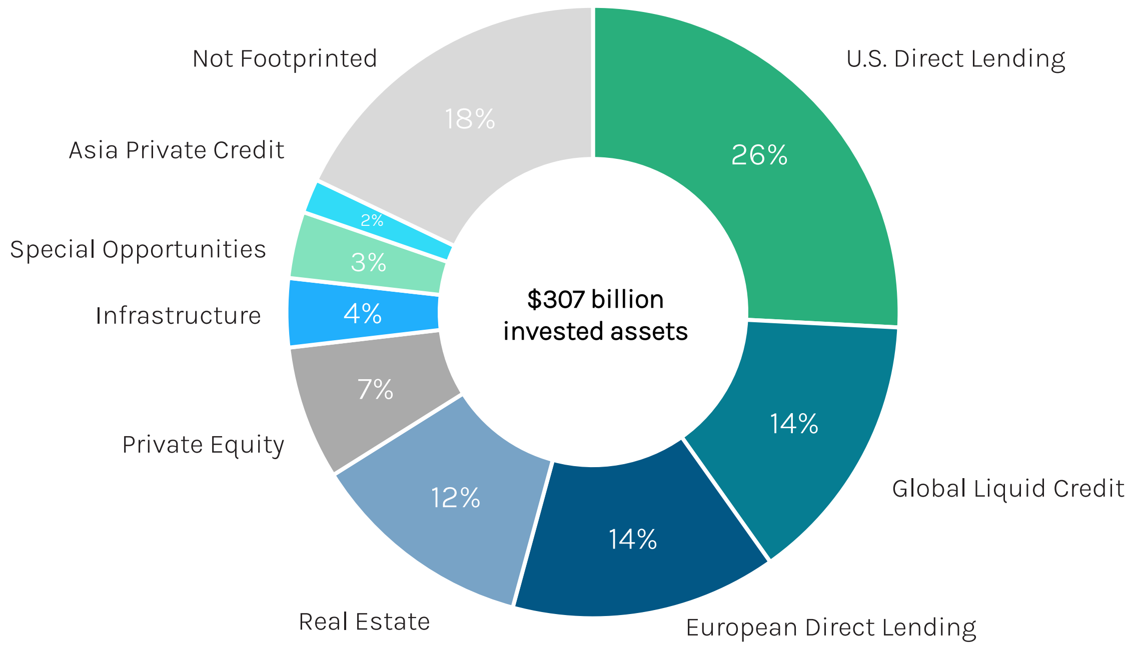


Figure 10: Financed Emissions by Strategy (2023)

Strategy	Invested Assets Covered ($M)	Financed Emissions (tCO_2e)			Economic Intensity (tCO_2e/$M Invested)		Weighted PCAF Data Quality Score (1-5)		
		Scopes 1-2	Scope 3	Total	Scopes 1-2	Total	Scopes 1-2	Scope 3	Total
U.S. Direct Lending	$79,322	5,414,207	10,859,540	16,273,748	68	205	3.9	4.0	4.0
European Direct Lending	$43,142	401,519	2,219,083	2,620,603	9	61	2.4	2.9	2.9
Asia Private Credit	$5,547	967,773	1,639,569	2,607,343	174	470	4.4	4.5	4.5
Global Liquid Credit	$43,991	4,658,286	13,339,706	17,997,992	106	409	3.6	3.7	3.7
Private Equity	$21,736	1,028,996	3,405,766	4,434,762	47	204	3.0	3.9	3.7
Special Opportunities	$10,811	594,666	1,686,260	2,280,926	55	211	3.8	4.0	4.0
Infrastructure Debt	$6,516	436,576	239,330	675,906	67	104	3.1	3.3	3.1
Infrastructure Equity	$4,663	6,279,670	500,822	6,780,493	1,347	1,454	2.1	2.7	2.1
Real Estate	$35,804	*Estimations represent whole building operational emissions*[21]		519,772	N/A	15	N/A	N/A	3.9
TOTAL	$251,531	19,781,695	33,890,077	54,191,544	92	215	3.4	3.7	3.7

Data Quality in Private Markets

Improving the quality and coverage of portfolio emissions data is a high priority for Ares. However, we primarily invest in private markets where availability of emissions data is lower than in public markets, requiring us to use some sector-based estimates. These often vary widely from actual emissions and can overstate emissions by a significant margin (see "An honest conversation about emissions data" spotlight).

In response, Ares has launched several initiatives designed to improve emissions data quality and coverage over time, including:

- Expansion of the Ares annual ESG survey to cover more asset classes and more detailed climate-related questions
- Partnerships with vendors to collect publicly available reporting and provide proprietary datasets
- Portfolio engagement efforts, as appropriate, including training and vendor introductions, and Ares-subsidized consulting engagements to improve capacity for emissions measurement
- Execution of ESG-linked financing tied to emissions measurement or reduction
- Improvements to internal data systems to obtain more accurate, consistent, and complete company and holdings information to aid in estimation—including sector reclassifications to improve mapping to emissions factors

We disclose our data quality scores in line with PCAF guidance to track year-over-year progress. This scale ranges from 1 as the highest quality and most granular data available to 5 as the lowest credibility data based on top-down estimates. Our portfolio data quality score was 3.7 in 2023. Despite being slightly poorer than last year's score of 3.5, this shows that Ares has largely maintained or improved data quality for the strategies included in last year's footprint while more than doubling coverage. Holdings added to the 2023 footprint include hard-to-measure investments like collateralized loan obligations (CLOs) that require top-down estimation and counterbalance improvements in quality elsewhere.

Spotlight

An honest conversation about emissions data

Ares believes that data should be at the core of any successful climate initiative. It enables investment managers and portfolio companies to prioritize efforts and track the performance of those efforts. At the same time, access to consistent, transparent, high-quality emissions data is a recurring barrier in private markets.

So how can we tackle emissions data? A few industry-wide insights have emerged from our efforts:

1. **Data is as much a "people problem" as it is a technical issue.** We need to build capacity for both leadership and frontline employees in our portfolio companies to "own" their emissions data. No amount of automated analysis can repair low-quality data at the source.
2. **Estimation is a double-edged sword.** It plays an important role by filling in the gaps in our emissions profile. But there are limits to what estimates can and cannot tell us: every company is different and real-world operations often vary widely from the industry average.
3. **Regulation and market expectations are changing the game.** The combined forces of regulatory pressure and evolving customer/investor expectations have thrust carbon accounting into the mainstream. Many company leadership teams now pay close attention to emissions measurement and disclosure, and global data availability is improving as a result.
4. **Standardization is here to stay.** The past few years brought never-before-seen clarity in the guidelines, methodologies, and best practices that underly emissions measurement. This has been amplified by the widespread availability of user-friendly software and advisory support. Carbon accounting is fast approaching financial accounting in terms of consistency and rigor.

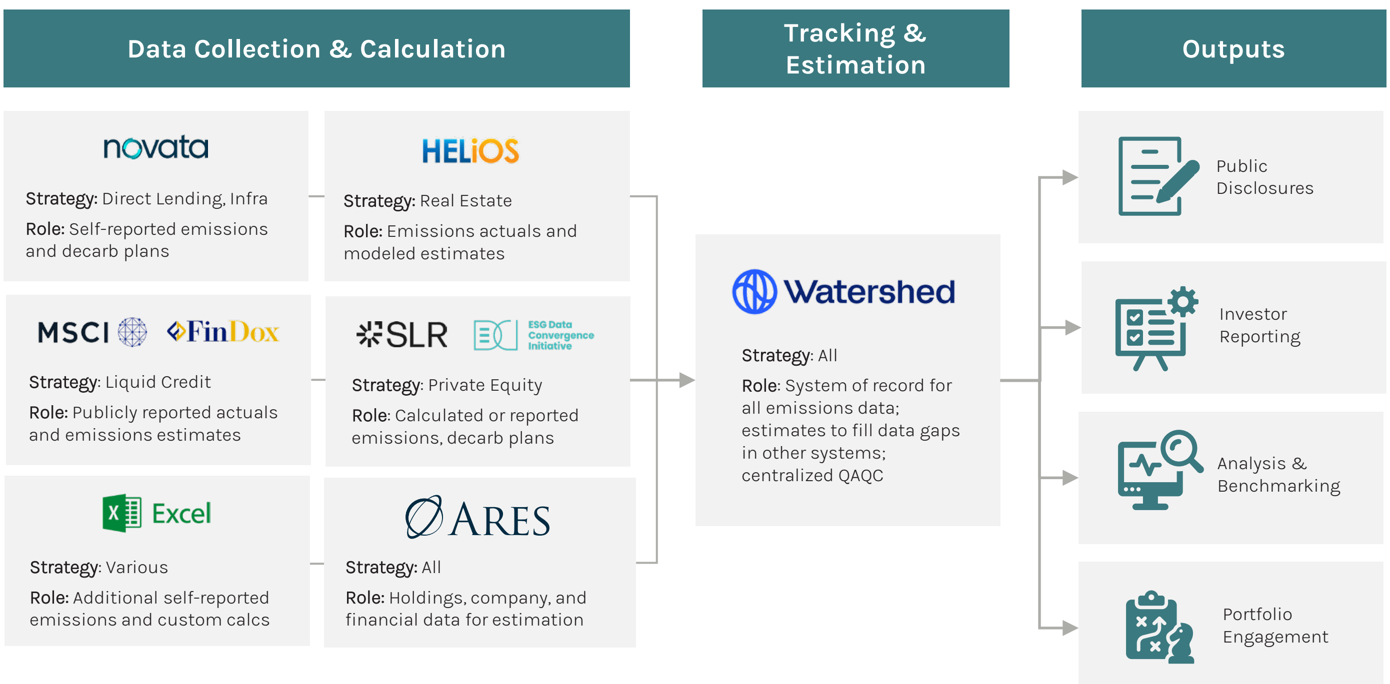
Case Study

Building an integrated emissions data system

In 2023, Ares launched an effort to integrate the collection, management, and analysis of emissions data across the firm. Specifically, we:

- Selected Watershed to provide a system of record for emissions data
- Launched a survey effort with Novata to collect ESG key performance indicators for Direct Lending and Infrastructure strategies, including emissions and decarbonization activities
- Expanded implementation of Helios—a software solution for the real estate industry that calculates property-level emissions based on utility data (when available) and energy modeling that incorporates known building characteristics—across the global Real Estate equity and debt portfolio
- Continued an Ares-funded emissions measurement program in Private Equity in partnership with SLR, reporting standardized results through the ESG Data Convergence Initiative for recent fund vintages (see “Building capacity for emissions measurement in Private Equity” case study)
- Created an ESG Data Working Group to facilitate partnership between the Ares ESG and IT teams—including an initiative to combine multiple holdings, company, financial, and survey data tracking systems into a centralized dataset for emissions estimation.

The result was a process for managing emissions data and automating key functions in the preparation of our annual financed emissions footprint:



Using this system, Ares is now able to (1) develop a financed emissions footprint covering 82% of invested assets, (2) reduce reliance on manual processes, and (3) use a centralized set of tools to analyze our emissions profile and take prioritized action on decarbonization.

B. Corporate Emissions

Ares' decarbonization strategy includes addressing our corporate emissions. We view this as an opportunity not only to be good corporate citizens, but also to drive operational efficiency, cost savings, and staff education across the firm while demonstrating alignment with our portfolio companies.

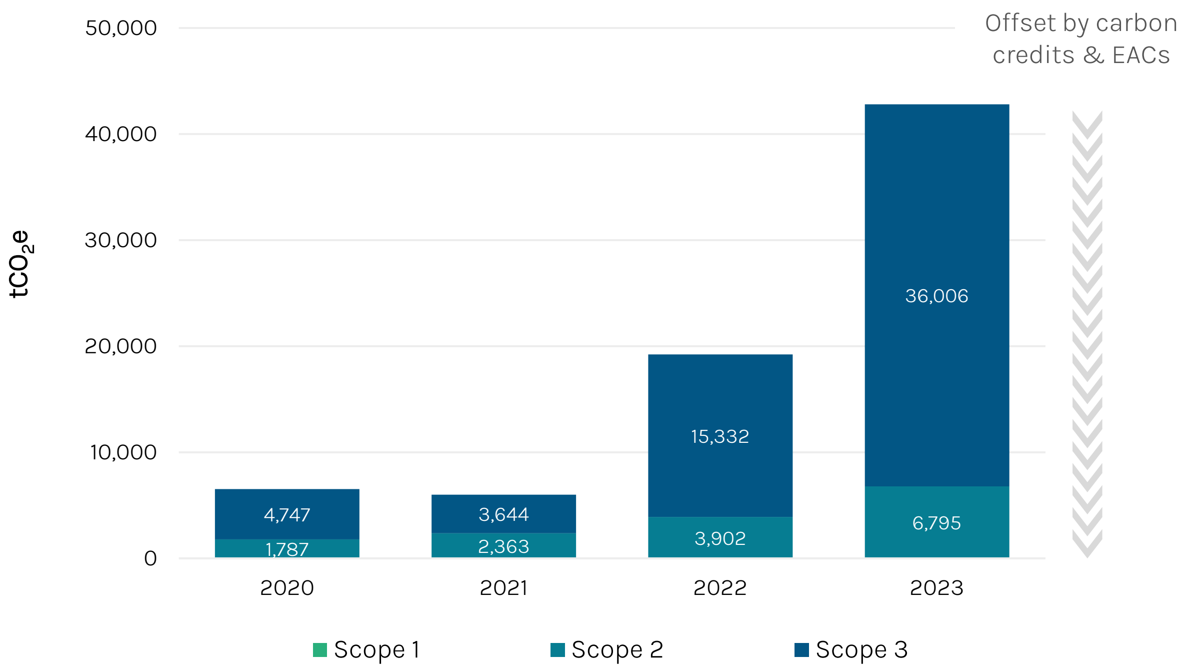
Operational Footprint Methodology and Results

Ares has measured, reported, and offset our operational emissions at the management company level since 2020. These calculations are in alignment with the Greenhouse Gas Protocol Corporate Standard.

In 2023, we saw an increase in absolute emissions driven by a continued post-pandemic travel rebound coupled with corporate growth. We have experienced sustained growth as a firm since 2020. Between 2022 and 2023, this included growth in our employee base by 11%, expansion of office square footage by 42%, and a general increase in office occupancy. In addition, our firmwide employee flight mileage—our biggest driver of overall emissions—more than doubled in 2023 as the COVID-19 rebound continued. Methodological changes also contributed to the increase, specifically the expansion of our footprint in 2022 to include upstream emissions from purchased fuels and electricity (Scope 3 – Category 3) and an increase to standard emissions factors for air travel in 2023 to account for reduced passenger load factor due to COVID-19.[22] Therefore, we have seen a significant year-over-year increase in our operational emissions since measurement began in 2020 during the height of the pandemic, and that pattern continued in 2023. See Figure 11 for details.

In 2024, we plan to further enhance measurement of our corporate climate performance and identify additional opportunities for improvement. This is expected to include an updated assessment of the materiality of Scope 3 emissions categories, a benchmarking analysis of site-level emissions performance relative to market averages, and more detailed change attribution to better understand drivers of year-over-year trends.

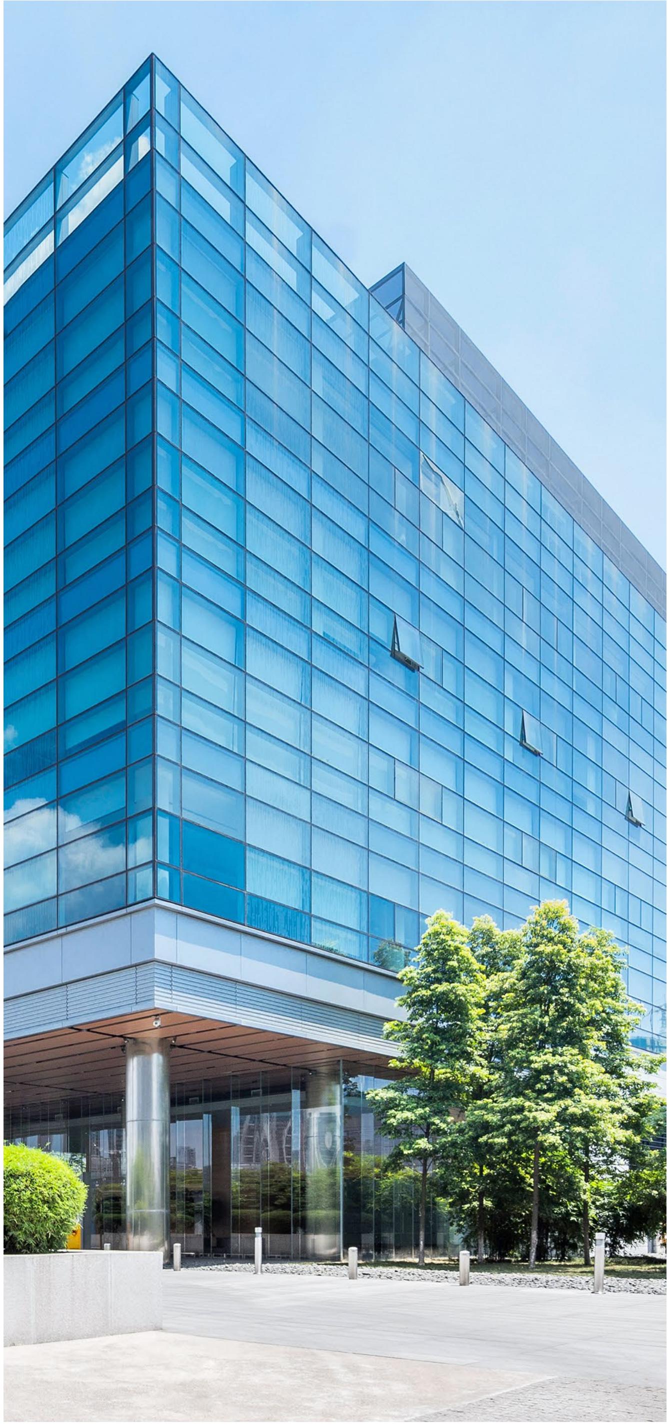
Figure 11: Scope 1, 2, and 3 Operational Emissions[23]



Note: Scope 1 emissions are not visible due to negligeable amount —see Figure 12 for details

Carbon Credits and EAC Purchases

In 2023, we continued to purchase carbon credits and EACs as a complement to our efforts to manage our corporate emissions. We view this purchase as a stepping-stone to reduce our near-term environmental impact and scale up investment into climate solutions while continuing to work to implement operational emissions reductions. Put simply: purchasing carbon credits and EACs is additional to, not a replacement for, our ongoing work to manage emissions at source. We procure our credits from nature-based carbon removal projects in partnership with Climate Impact Partners and evaluate them using the Core Carbon Principals of the Integrity Council for the Voluntary Carbon Market. The specific credits we purchased helped to support grassland restoration work and were validated by the Verified Carbon (VCS) and Climate, Community and Biodiversity (CCB) Standards. The VCS, set by Verra, is the world's most widely used voluntary program to ensure the credibility of emission reduction projects. The CCB assess land use projects aimed at addressing climate change, benefitting local communities and smallholders, and conserving biodiversity. We also prioritize projects with social co-benefits, such as job creation and skills development for local communities. For the electricity portion of our emissions, we procure country-specific, non-hydropower, non-biomass EACs—also known as renewable energy certificates (RECs) in the U.S.—proportional to our consumption in each country.



Corporate Sustainability Initiatives

As Ares continues to grow, we are expanding our office footprint. Ares prefers office buildings with LEED, BREEAM, or local equivalent certification, energy efficiency upgrades, and other sustainable tenant amenities. In our physical office space, we are implementing measures to reduce on-site energy usage, install efficient mechanical equipment, use LED lights and daylight and occupancy sensors as appropriate, and source local materials whenever possible.

We engage with our landlords to identify energy efficiency projects and share knowledge and provide education opportunities for our employees on sustainability and decarbonization to reduce impact in their work and personal lives. We have also implemented several initiatives to improve our waste management, including eliminating plastic water bottles, moving away from single-use crockery and utensils in our major offices, and enhancing recycling and composting programs. We offer a responsible lightbulb and battery disposal program in our major offices to help make sustainable choices easier for our team. We continue to embed these principles into new office spaces and facilities, which helps to ensure we continue to grow and operate with a focus on sustainability.

C. Environmental Metrics

Figure 12: Ares Environmental Metrics (2022-2023)

Absolute Emissions by Scope[19]		2022 (tCO_2e)	2023 (tCO_2e)	Change (tCO_2e)
Scope 1		35	47	12
Scope 2	Location-based	2,983	5,220	2,237
	Market-based	3,114	5,431	2,317
	Other	788	1,365	578
Scope 3*		15,332	36,006	20,673
Total Emissions (Market-based)		19,269	42,848	23,581
Total FTE (Full-time Equivalents)		2,563	2,857	11%
Emissions Intensity (tCO_2e/FTE)		7.52	15.00	99%

Note: Scope 3 here relates to operational emissions only and excludes category 15, also known as "financed emissions," which are disclosed separately on page 27.

Metric	2022	2023	% Change
Energy Consumption	67,235 GJ	93,797 GJ	+40%
Energy Intensity	7.60 MWh of energy use per employee	9.12 MWh of energy use per employee	+20%
Water Consumption	7,732 m^3	15,639 m^3	+102%
Water Consumption Intensity	3.02 m^3 of water use per employee	5.47 m^3 of water use per employee	+81%

Forward-Looking Statements

This 2023 Climate Action Report ("the Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended which reflect our current views with respect to, among other things, future events, operations and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as "believes," "expects," "potential," "continues," "may," "will," "seeks," "intends," "plans," "estimates," "anticipates," or negative versions of those words, other comparable words or other statements that do not relate to historical or factual matters. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. These factors include, but are not limited to, those set forth in this Report and in Ares' periodic filings with the Securities and Exchange Commission. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these forward-looking statements. New risks and uncertainties arise over time, and it is not possible for Ares to predict those events or how they may affect us. Therefore, you should not place undue reliance on these forward-looking statements. Actual results may differ materially from any forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. Ares does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by law.

This Report includes information on Ares' responsible investment program, including incorporating relevant climate considerations across our corporate operations, strategies, and/or funds. Such program is subject to Ares' fiduciary duties and applicable legal, regulatory, and contractual requirements and is expected to change over time. Additionally, the act of selecting and evaluating material ESG factors, including those related to climate, is subjective by nature, and the criteria utilized or judgment exercised by Ares may not align with the views, beliefs or values, internal policies, or preferred practices of any particular investor or other asset manager or with market trends. There are a variety of principles, approaches, frameworks, methodologies, and tracking tools; Ares' adoption and adherence to those discussed herein or to any others is expected to vary over time as practices evolve.

While Ares intends to include climate risk as a component of its investment process, where relevant and certain corporate activities as described in this Report, there can be no assurance that Ares' climate initiatives, policies, and procedures related to ESG integration or responsible investment or the application of ESG-related criteria or reviews to the investment process, as described herein will continue; such policies and procedures could change, even materially, or may not be applied to a particular investment. Ares is permitted to determine in its discretion that it is not feasible or practical to implement or complete certain of its climate-related initiatives, policies, and procedures based on cost, timing, or other considerations; such climate related initiatives, policies, and procedures are not necessarily (and are not purported to be) deployed in connection with each investment. Statements about ESG initiatives or practices related to portfolio companies also do not apply in every instance and depend on factors including, but not limited to, the relevance or implementation status of an climate-related initiative to or within the portfolio company; the nature and/or extent of investment in, ownership of, or control or influence exercised by Ares with respect to the portfolio company; and other factors as determined by investment and operation teams and/ or portfolio company teams on a case-by-case basis.

Additionally, climate-related factors are only some of the many factors Ares may consider with respect to investments, and there is no guarantee that Ares' implementation of its responsible investment program will enhance long-term value and financial returns for limited partners. To the extent Ares engages with portfolio companies on climate-related practices and potential enhancements thereto, there is no guarantee that such engagements will improve the performance or risk profile of the investment. Additionally, there can be no assurance that Ares or its investments will be able to achieve any climate-related objectives, or that any historical trends will continue to occur. Certain information contained herein relating to any goals, targets, intentions, or expectations, including with respect to climate targets and related timelines, is subject to change, and no assurance can be given that such goals, targets, intentions, or expectations will be met. These statements are subject to numerous uncertainties, risks, and assumptions. Further, climate-related statistics and metrics may be estimates and subject to assumptions or developing standards (including Ares' internal standards and policies). There is no guarantee that Ares will remain a signatory, supporter, or member of any climate related initiatives or other similar industry groups or frameworks.

Statements about climate-related initiatives, outcomes or practices related to portfolio companies, assets or case studies do not apply in every instance and depend on factors including, among others, (i) the relevance or implementation status of a particular initiative to or within the portfolio company, (ii) the nature and extent of Ares' investment in, ownership of, or control with respect to the portfolio company, and (iii) other factors as determined across teams, companies, investments, and/or businesses on a case-by-case basis. Climate risk factors are only some of the many factors Ares considers in making an investment, and there is no guarantee that consideration of ESG factors will positively impact the performance of any individual investment. To the extent Ares engages with portfolio companies on climate-related practices and potential related improvements, there is no guarantee that such engagements will improve the financial or climate-related performance of the investment.

Certain investment examples described in this report may be owned by investment vehicles managed by Ares and by certain other third-party partners, and in connection therewith Ares may own less than a majority of the equity securities of such investment.

Case studies presented herein have been selected in order to provide illustrative examples of Ares' application of its ESG program with respect to its portfolio investments and do not purport to be a complete list thereof. Descriptions of any ESG achievements or improved practices or outcomes are not necessarily intended to indicate that Ares has substantially contributed to such achievements, practices, or outcomes. For instance, Ares' ESG efforts may have been one of many factors—including such other factors as engagement by portfolio company management, advisors, and other third parties—contributing to the success described in each of the selected case studies. It should not be assumed that investments made in the future will be comparable in quality or performance to the investments described herein. Further, references to particular portfolio companies or assets should not be considered a recommendation of any particular security, investment, or portfolio company or be used as an indication of the current or future performance of Ares' investments.

Forward-Looking Statements

The receipt of any awards or accolades by Ares or the portfolio companies described herein is no assurance that Ares' investment objectives have been achieved or successful. Further, such awards or accolades are not, and should not be deemed to be, a recommendation or evaluation of Ares's alternative asset management business. The awards noted herein relate only to selected funds or strategies and may not be representative of any given client's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance. In gathering and reporting upon the information contained herein, Ares may depend on data, analysis, or recommendations provided by investments of Ares or by third-party advisors or data sources, which may be incomplete, inaccurate, or out of date. None of the figures included in this document were audited, assured, or independently verified by auditors or third-party assurance providers, unless otherwise stated. Ares does not independently verify all climate-related information it receives from investments or third-party advisors or data sources, and it may decide in its discretion not to use certain information or accept certain recommendations. While these third-party sources are believed to be reliable, Ares makes no representation or warranty, express or implied, with respect to the accuracy, fairness, reasonableness, fitness for use, or completeness of any of the information contained herein, and expressly disclaims any responsibility or liability therefor.

In this Report, we are not using such terms "material" or "materiality" as they are used under the securities or other laws of the U.S. or any other jurisdiction, or as they are used in the context of financial statements and financial reporting. Materiality, for the purposes of this document should not, therefore, be read as equating to any use of the word in other Ares reporting or filings. Any discussion of climate-related topics that are potentially material to a portfolio company refers only to the materiality of such topic to a portfolio company and does not imply or indicate that such topic is material to Ares Management Corporation. "Material" ESG issues, are defined as topics, factors and issues Ares, determines have, or believes could have a substantial impact on an asset's or portfolio companies' ability to create or preserve economic value or those factors that may reduce climate or sustainability related risks. Ares engages with multiple organizations to assess various approaches when determining what is a material ESG issue for different types of assets and investments.

[The inclusion of any third-party firm and/or company names, brands, and/or logos does not imply any affiliation with these firms or companies. None of these firms or companies have endorsed Ares, Ares funds, or any respective affiliates.] This Report is dated as of [AUGUST] 2024 and speaks only as of such date, unless otherwise stated. This Report documents activities and includes performance data and information for calendar year 2023, unless otherwise stated.

The data and information provided in this Report are presented for informational purposes only. This Report shall not constitute an offer to sell or a solicitation of an offer to buy interests in any fund or security or other investment product sponsored or managed by Ares or any of its affiliates. Any such offer or solicitation shall only be made pursuant to a final confidential private placement memorandum (as amended and/or restated from time to time) and the applicable fund's subscription documents, which will be furnished to qualified investors on a confidential basis at their request for their consideration in connection with such offering. The information in this Report is only as current as the date indicated and may be superseded by subsequent market events or for other reasons, and Ares assumes no obligation to update the information herein. Nothing contained herein constitutes investment, legal, tax, or other advice nor is it to be relied on in making an investment or other decision.

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End Notes

1. Ares defines a "just transition" as our efforts to help drive the overall energy transition that seeks to cut carbon while enabling jobs and skills to be increased or maintained and not lost. We believe investing in low-carbon innovation and a climate resilient workforce is how we can help accelerate climate action.

2. https://www.bain.com/how-we-help/private-markets-decarbonization-roadmap/

3. https://www.dgardiner.com/fortune-500-climate-initiatives-2023/#:~:text=There%20are%20now%20239%20Fortune,are%20in%20the%20Fortune%20100

4. https://www.climateimpact.com/news-insights/fortune-global-500-climate-commitments/

5. The ACT Program will be introduced to portfolio companies and other entities who are selected for engagement in 2024.

6. The 2024 Look Ahead section represent initiatives and goals Ares plans to enact in that year. There is no assurance these stated activities are implemented or accomplished.

7. https://www.fsb.org/2023/10/2023-tcfd-status-report-task-force-on-climate-related-financial-disclosures/

8. Source: Kirkland & Ellis ESG Regulatory Tracker, UNPRI Global Policy Database, RI ISSB Adoption Tracker (July 2024). The laws, regulations and proposals listed are representative examples of statutes targeting private, nonstate entities and mandating climate-related disclosures and/or performance. This selection is not intended to be exhaustive or to convey application of climate-related requirements to Ares and/or its portfolio. The scope of laws, regulations and proposals included in this map may differ from that used in Ares's previous TCFD Climate Action Reports.

9. https://assets.bbhub.io/company/sites/60/2023/09/2023-Status-Report.pdf

10. Developed by Bain on behalf of the Initiative Climat International (iCI) and the Sustainable Markets Initiative's Private Equity Task Force, the PMDR will help private equity firms accelerate progress on disclosing and reducing greenhouse gas emissions. See more at https://www.bain.com/how-we-help/private-markets-decarbonization-roadmap/

11. Ares ESG-Linked Financings are defined as loan instruments for which Ares proposed and agreed to terms with the borrower that link the interest rate to ambitious, material, predetermined and quantifiable Sustainability Performance Targets ("SPTs"). Such terms may provide for potential decreases in the interest rate on the loan instrument where the borrower achieves the SPTs and/or potential increases in the interest rate if the SPTs are not achieved in the prescribed time period. Typically, the borrower is required to report annually and the borrower's performance against the SPTs is verified by an independent third party. Financial outcomes for the borrower can vary depending on whether the borrower achieves the SPTs. Sustainability Performance Targets ("SPTs") are defined as the predetermined sustainability targets in respect of certain ESG-related key performance indicators (including activities, characteristics or outcomes) which are either proposed and/or negotiated with the borrower in Ares ESG-Linked Financings and are required to be achieved over specified time periods.

12. Co-investment allocations are discretionary and subject to Ares' investment allocation policy and are not guaranteed. Co-investments may not be available in all strategies. There can be no assurance that any co-investment opportunities will be made available to investors in the future. Decisions regarding whether and to which investors to offer co-invest opportunities to are made in the sole discretion of the general partner and may be based on a number of factors. An investment in this vehicle or another Ares fund does not entitle an investor to an allocation of co-investment opportunities.

13. Diversification does not assure profit or protect against loss.

14. Infrastructure Investors selected Ares Infrastructure and Power Energy Transition Investor of the Year – North America for the year 2022. Ares received the award represented by survey participants that voted independently. In addition, survey participants could nominate another firm not listed in the category. Infrastructure Investors is a publication that covers the flow of private capital into infrastructure projects around the world, as published by PEI, which is a group focused exclusively on private equity, private debt, private real estate and infrastructure and agri-investing. Ares was selected as the winner of the aforementioned award through a selection process by those persons choosing to vote in each category, which may include firms that submitted for awards, but which are not allowed to vote for themselves. Ares did submit for this category but did not pay a fee to participate in the selection process. The selection of Ares Infrastructure and Power Group to receive this award was based in part on subjective criteria and a potentially limited universe of competitors. There may be other award categories for which Ares, its funds or its portfolio companies were considered but did not receive awards. The awards noted herein relate only to selected funds/strategies and may not be representative of any given client's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance.

15. Analysis completed for 2022 TCFD Climate Action Report and will be updated as appropriate in future years.

16. As verified in accordance with RICS Methodology and EN 15978 by Greenbox Thinking.

17. We excluded the following portions of the portfolio from the footprint: (a) Alternative Credit, Secondaries, and Insurance strategies, which are not covered under the PCAF Financed Emissions Standard. Ares is actively participating in industry efforts to develop standards for these strategies; (b) Ground leases and real estate assets under construction, which have negligible Ares-attributable emissions; (c) Assets where Ares does not have control or that are otherwise recommended for exclusion by PCAF (e.g., certain co-investments, pass-through transactions, short-term credit facilities, derivatives).

18. These include Helios for real estate and MSCI and FinDox for Liquid Credit.

19. Specifically, estimated top-down using the Watershed Estimation Engine, which estimates emissions for Scope 1, 2, and material Scope 3 categories using available inputs and is powered by the Comprehensive Environmental Data Archive (CEDA) multi-region input-output model. Most of these estimates incorporate company financials and other company information to improve accuracy.

End Notes

20. The Scope 3 categories included in emission reporting to Ares by portfolio companies varies across companies. This is to be expected for a few reasons: (1) not all categories are material to all companies, (2) companies differ in how they determine materiality, and (3) companies are inconsistent in which Scope 3 categories they choose to disclose. This is a challenge across the investment industry and means that the Scope 3 portion of our financed emissions is sensitive to variance in which categories are reported. As carbon accounting standards and regulations continue to converge, we expect consistency of Scope 3 reporting to improve, which may result in a perceived increase in Scope 3 emissions over time as more categories are reported.

21. Estimated real estate emission represent whole building operational emissions and are not split into Scope 1 & 2 (landlord) and Scope 3 (tenant) emissions. Therefore, totals in Figure 10 include real estate but any columns that break out emissions by scope exclude real estate.

22. The U.K .Department for Energy Security and Net Zero (DESNZ) updated several widely used emissions factors for 2023. This included a substantial increase to emissions per passenger-kilometer for air travel, which DESNZ said was related to "reduced load factors, which are a consequence of the COVID-19 pandemic." More information on these factors can be found here: https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2023

23. Our operational emissions include the following, aligned to the Greenhouse Gas Protocol: Scope 1; Scope 2; and Scope 3 Category 3 (Fuel and energy related activities including transmission and distribution losses), Category 5 (Waste generated), Category 6 (Business travel), Category 7 (Employee commuting including homeworking), and Category 8 (Upstream leased assets including fugitive emissions)

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