

Ares Dynamic Credit Allocation Fund, Inc.
Form N-CSR
January 04, 2017

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

FORM N-CSR

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

Investment Company Act file number 811-22535

ARES DYNAMIC CREDIT ALLOCATION FUND, INC.
(Exact name of registrant as specified in charter)

2000 AVENUE OF THE STARS
12TH FLOOR
LOS ANGELES, CALIFORNIA
(Address of principal executive offices)

90067
(Zip code)

Copy to:

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(Name and address of agent for service)

New York, New York 10019

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

Date of fiscal year end: October 31

Date of reporting period: October 31, 2016

Item 1. Report to Stockholders.

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

Annual Report

October 31, 2016

Ares Dynamic Credit Allocation Fund, Inc.

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Annual Report 2016

Ares Dynamic Credit Allocation Fund, Inc.

Letter to Shareholders

October 31, 2016 (Unaudited)

Dear Shareholders,

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

Economic Conditions and Leveraged Finance Market Update

2016 thus far through October has been a strong year for credit with the Credit Suisse Leveraged Loan Index ("CSLLI") and Merrill Lynch High Yield Master II Index ("H0A0") posting gains of 8.28% and 15.68%, respectively, compared to gains of 5.87% for the S&P 500. The year began with a continued collapse in oil prices, concerns about China's currency devaluation pace, and U.S. recession fears. Through February 11, the S&P 500 had traded down by as much as 5.7%, oil traded down to a low of \$26.21 a barrel and the sell-off in high yield bonds gathered momentum, putting high yield securities squarely in oversold territory. Around mid-February, improvements across a number of global issues provided a more constructive macro backdrop for non-investment grade credit markets. The European Central Bank ("ECB") provided a larger expansion of monetary policy than anticipated, China gave more reassurance on foreign exchange rates, OPEC and non-OPEC members held talks regarding the possibility of putting a floor under oil prices, U.S. recession concerns faded amidst better economic data and the Federal Reserve ("Fed") narrative remained dovish. Following the momentum gained in late February, capital markets firmly advanced through the spring as a more traditional risk rally took hold amid improving investor sentiment and accommodative central bank action and rhetoric. Through June 30, U.S. credit markets posted strong returns, led by lower rated assets and cyclical sectors. Following a brief disruption at the end of June surrounding the surprising vote by the British populous to leave the European Union ("Brexit"), credit markets rallied throughout the Summer and early Fall as market participants continued their search for yield owing to negative sovereign rates persistent across the globe. The strong risk rally within credit that prevailed for much of the year began to show indications of waning in October amid the increased probability of a December rate hike, renewed concern over potential OPEC agreements and rising Treasury yields. Following Donald Trump's unexpected victory in the U.S. presidential election, high yield bonds came under pressure amid the sharpest sell-off in Treasuries since the "Taper Tantrum" in May 2013 while leveraged loans held up relatively well. Rate concerns are now heightened amid prospects for firmer global economic conditions, higher deficits, a rise in inflation expectations, and possibly an even more active Fed under a Trump White House. At this stage uncertainty abounds, in particular regarding the detailed policies, posture, and makeup of the forthcoming administration. Continued volatility is likely, and drawing conclusions or making macroeconomic forecasts in such a fluid environment remains difficult.

October saw generally positive economic data releases offset rising concerns surrounding the political landscape, a potential rate hike in December and renewed weakness in commodities. The U.S. Department of Commerce released the advance estimate of U.S. GDP in late October, reporting the economy expanded at a 2.9% annual rate during the third quarter of 2016, marking the strongest quarter of growth in two years. Estimates for real GDP exceeded expectations this quarter largely due to strength in business investment, consumer spending and a better performance in global trade. Specific to payrolls, the U.S. Labor Department reported that 161,000 jobs were added during the month of October, which was fewer than expected but still a healthy gain. Importantly, the unemployment rate fell back down to 4.9% and average hourly earnings rose 2.8% year-over-year, the fastest pace of wage growth since the financial recession. The October employment report marked the 73rd consecutive month of job gains for the U.S. economy and may be enough to clear the path for the Fed to raise interest rates at its next meeting in December.

Nonetheless, the market's focus in October centered around the U.S. Presidential election which took place on November 8 after almost two years of contentious and unpredictable campaigning. In the days leading up to the election, the polls and political pundits gave Republican Donald Trump little chance of winning and were projecting that Secretary of State Hillary Clinton would likely be elected. However, in a historic upset, the American people chose Mr. Trump to be the 45th President of the United States. This outcome was widely unexpected and while equity futures plunged late Tuesday night after Mr. Trump claimed victories in several key battleground states, U.S. stocks rebounded the following day led by large gains in the healthcare, financials, and industrials sectors. The market's initial reaction was generally positive but a great deal of fiscal, monetary, political and economic uncertainty remains. We believe it will take time for investors to consider the implications of a Trump presidency and act accordingly. Therefore, in the more immediate term we expect the market to re-focus on important events between now and year-end including the November 30 OPEC meeting and the ECB, Bank of Japan, and Fed meetings taking place in December. According to pricing in federal funds futures, the probability of a rate hike in December now stands at 84%, but the odds could fluctuate between now and then given the unexpected outcome of the Presidential election, concerns about low inflation, moderate economic growth and continued turmoil abroad.

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Ares Dynamic Credit Allocation Fund, Inc.

Letter to Shareholders *(continued)*

October 31, 2016 (Unaudited)

Continued signs of a modestly recovering EU were provided in the form of Eurozone factory activity, as data released by Markit pointed to their most active month in nearly three years. The Eurozone factory purchasing managers index rose to 53.5, its highest level since 2014. Additionally, manufacturers reported hiring has picked up and that they had raised their selling prices as well, a boost to the ECB who has been intently focused on increasing inflation through its various QE initiatives. Although inflation still remains doggedly low, green shoots have started to appear. These improvements have led to speculation that the ECB may look to taper its current bond purchasing program as early as December. The scarcity of eligible bonds and the artificial effects the stimulative program has had on the credit markets in general may prompt the ECB to scale back its current efforts to drive inflation and economic recovery. This would certainly increase the probability for increased volatility within the region at a time where concerns are mounting regarding the growth prospects for 2017. Elections in Germany and France could provide surprise results much like the Brexit vote or the recent U.S. Presidential election. Additional volatility could be experienced with the UK set to begin its negotiations to separate from the EU in early 2017 as well.

Improved market tone and strong demand technicals in both the loan and CLO debt markets has led to a rally in credit and CLOs. Surpassing September's \$8.2 billion of new issuance, October was the strongest month for primary CLO issuance in the U.S. with ~\$8.4 billion across 17 deals. As of October 31, year-to-date 2016 primary issuance totals ~\$55.9 billion exceeding certain CLO analyst forecasts of \$55 billion for the full year. With the U.S. risk retention deadline a few short weeks away, we expect November to be another busy month as CLO managers race to get deals done in advance of the deadline. In Europe, primary issuance is on track to set a new post-crisis high with €1.7 billion across four deals in October bringing the year-to-date 2016 total to €14.3 billion as of October month-end.^{2, 3, 4} In the primary market, spreads continue to tighten as international demand remains strong. In Europe, new issue AAA spreads reached a post-crisis low of 98bps in October. Senior spread tightening has lowered the average cost of funding for primary Euro CLOs, even despite widening lower in the capital stack. Single-B tranches priced in the mid to high 900s, up from the low to mid 800s at the end of 2015. In the U.S., primary AAA spreads ranged from 143-159bps while BB spreads ranged from 725-875bps. With elevated supply in the primary, new issue AAA spreads have yet to break 140bps in the U.S.⁵ The trailing twelve month default rate for the S&P Leveraged Loan Index remained flat at 1.95% in October. With no new defaults, the amount of defaulted collateral in post-crisis CLOs continues to decline. However, in light of the outlook for the loan market in October,³ we believe the quantum of fundamental risks have increased slightly as our pipeline of watch list credits continues to grow.

The CLO market had a muted reaction to the election of Donald Trump both the U.S. and European CLO markets were virtually unchanged. It appears market participants were positioned with a "buy the dip / opportunistic" posture similar to what occurred after Brexit though so far that buying opportunity has been limited. Against an uncertain background and expected further volatility, we seek to manage our portfolios with caution and pragmatism but stand ready to hunt for value. Despite having to endure market volatility and the resultant impact on short-term returns, these are the kinds of markets where we believe our process, team and technology platform can really shine. For additional information about the instruments in which ARDC invests, please refer to the Fund's shareholder report.

Ares Dynamic Credit Allocation Fund, Inc.

ARDC is a closed-end fund that trades on the New York Stock Exchange under the symbol "ARDC" and is externally managed by Ares Capital Management II LLC (the "Advisor"), a subsidiary of Ares Management, L.P. ("Ares") ARDC's investment objective is to provide an attractive risk adjusted level of total return, primarily through current income and, secondarily, through capital appreciation by investing in a broad, dynamically-managed portfolio of

below investment grade senior secured loans, high yield corporate bonds and collateralized loan obligation securities.

Portfolio Performance and Positioning

For the calendar year-to-date period through October 31, 2016, ARDC has returned 16.6% based on Net Asset Value ("NAV"), which compares to 8.3% for the Credit Suisse Leveraged Loan Index ("CSLLI") and 15.7% for the Bank of America Merrill Lynch High Yield Master II Index ("H0A0"). On a last twelve months basis through October 31, 2016, ARDC has returned 9.0% based on NAV, which compares to 6.3% for the CSLLI and 10.2% for the H0A0. For the period ended October 31, 2016, ARDC Market Price returns were 18.9% for the calendar year-to-date and 12.5% for the last twelve months basis, respectively. However, it is important to note that given its flexible mandate and focus on senior secured bank loans, high yield bonds and CLOs, we believe there is no single established benchmark that reasonably lends itself to comparison with ARDC.

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Ares Dynamic Credit Allocation Fund, Inc.

Letter to Shareholders *(continued)*

October 31, 2016 (Unaudited)

Over the past year, ARDC increased its allocation to CLO debt and equity to 25.1% as of October 31, 2016 from 20.7% as of October 31, 2015, as those assets were relatively dislocated toward the end of 2015/beginning of 2016 which allowed us to source investments at attractive valuations. In addition, ARDC slightly increased its allocation to bank loans while slightly reducing exposure to high yield bonds and holding very low cash balances throughout the year. From an industry perspective, over the last twelve months we meaningfully increased exposure to Metals & Mining to 4.9% from 0.5% and modestly increased exposure to Energy to 7.7% from 6.6% as those industries have been experiencing a recovery, while reducing exposure to Broadcasting to 4.4% from 7.2%.

On November 6, 2015, the Board of Directors (the "Board") of ARDC authorized the repurchase of shares of common stock of the Fund (the "Common Shares") on the open market when the Common Shares are trading on the New York Stock Exchange at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the net asset value ("NAV") of the Common Shares. The Fund may repurchase its outstanding Common Shares in open-market transactions at the Fund management's discretion. The Fund is not required to effect share repurchases. Any future purchases of Common Shares may not materially impact the discount of the market price of the Common Shares relative to their NAV and any narrowing of this discount that does result may not be maintained. Since inception of the program through October 31, 2016, the Fund has repurchased 489,383 shares at an average price of \$12.97, representing an average discount of -15.3%.

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

Best Regards,

Ares Capital Management II LLC

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

¹ Source: S&P Capital IQ LCD. "Global Databank," October 31, 2016.

² Source: J.P. Morgan. "Salt n Pepa: Seasoning of CLO Asset Portfolios," November 4, 2016.

³ Source: Deutsche Bank. "The Outlook: MBS and Securitized Products," November 9, 2016.

⁴ Source: Goldman Sachs. "GS CLO Secondary: October 2016 Month End Recap and Thoughts "Tourbillon," November 8, 2016.

⁵ Source: S&P Capital IQ LCD. "Global CLO Roundup: European AAA Spreads Reach Post-Crisis Low," October 31, 2016.

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Ares Dynamic Credit Allocation Fund, Inc.

Fund Profile & Financial Data

October 31, 2016 (Unaudited)

Portfolio Characteristics as of 10.31.16

Weighted Average Floating Coupon ¹	5.79%
Weighted Average Bond Coupon ²	7.95%
Current Distribution Rate ³	8.37%
Dividend Per Share	\$0.1025

1 The weighted-average gross interest rate on the pool of loans as of October 31, 2016.

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

3 October 2016 dividend per share annualized and divided by the October 31, 2016 market price per share. The Fund's October 2016 distributions were comprised of net investment income and short-term capital gains. The distribution rate alone is not indicative of Fund performance. To the extent that any portion of the current distributions were estimated to be sourced from something other than income, such as return of capital, the source would have been disclosed in a Section 19(a) Notice located under the "Investor Information" section of the Fund's website. Please note that the distribution classifications are preliminary and certain distributions may be re-classified at year end. Please refer to year-end tax documents for the final classifications of the Fund's distributions for a given year.

Top 10 Holdings⁴ as of 10.31.16

Rite Aid Corp	1.53%
Cablevision Systems Corp	1.27%
Guala Closures S.P.A.	1.25%
Alinta Energy Ltd	1.18%
Mohegan Tribal Gaming Authority	1.17%
Tegna Inc.	1.15%
TMF Group Holdings BV	1.14%
AerCap Holdings N.V.	1.12%
Builders FirstSource, Inc.	1.09%
Numericable Group	1.09%

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

Performance as of 10.31.16

	Market	NAV
1 Month	-0.32%	0.90%
Year to Date	18.90%	16.55%
3 Years (annualized)	1.95%	3.37%
Since Inception**	0.43%	4.60%

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

Source: Morningstar

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

Portfolio Composition as of 10.31.16

Fixed vs. Floating Rate as of 10.31.16

Industry Allocation⁵ as of 10.31.16

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

This data is subject to change on a daily basis. As of 10.31.16, the Fund held a negative traded cash balance of -3.41%.

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments

October 31, 2016

Floating Rate Term Loans 47.0%^(b)

	Principal Amount	Value^(a)
Aerospace and Defense 2.0%		
Doncasters U.S., LLC, Term Loan 2nd Lien, 9.50%, 10/09/2020	\$1,500,000	\$ 1,410,000
Engility Corporation, Term B-2 Loan, 5.75%, 08/12/2023	1,411,765	1,428,240
Square Holding Germany GmbH, Term Loan B, (Denmark), L+ 5.00%, 05/31/2023 ^(c)	€1,000,000	2,229,592
TransDigm, Inc., Tranche F Term Loan, 3.75%, 06/09/2023	\$2,793,000	2,780,795
		7,848,627
Automotive 1.0%		
Gates Global, LLC, USD Term Loan, 4.25%, 07/06/2021	2,493,546	2,456,392
KAR Auction Services, Inc., Tranche B-3 Term Loan, 4.38%, 03/09/2023	1,343,250	1,357,099
		3,813,491
Banking, Finance, Insurance & Real Estate 3.1%		
Asurion, LLC, 2nd Lien Term Loan, 8.50%, 03/03/2021	3,000,000	3,021,240
Asurion, LLC, B-5 Term Loan B, L+ 3.75%, 10/31/2023 ^{(c)(d)}	2,000,000	2,000,000
Gulf Finance, LLC, Tranche B Term Loan, 6.25%, 08/25/2023	2,272,396	2,218,427
Headwaters, Inc., Term B-1 Loan, 4.00%, 03/24/2022	997,475	1,002,153
Jeld-Wen, Inc., Term B-1 Loan, 4.75%, 07/01/2022	3,960,000	3,983,087
		12,224,907

Beverage, Food and Tobacco 1.5%

Albertson's, LLC, 2016-1 Term B-4 Loan, 4.50%, 08/25/2021	3,813,377	3,840,376
Candy Intermediate Holdings, Inc., Initial Term Loan 1st Lien, 5.50%, 06/15/2023	2,019,296	2,033,188
		5,873,564

Floating Rate Term Loans^(b) (continued)

	Principal Amount	Value^(a)
Chemicals, Plastics & Rubber 2.4%		
Allnex Sarl, Tranche B-1 Term Loan, (Luxembourg), 5.00%, 09/13/2023	€ 392,266	\$ 436,113
HII Holding Corporation, Term Loan 2nd Lien, 9.75%, 12/21/2020	\$1,500,000	1,477,500
HII Holding Corporation, U.S. Term Loan 1st Lien, 4.25%, 12/20/2019	999,522	999,522
Inovyn Finance PLC, Initial Tranche B Euro Term Loan, (Great Britain), 6.25%, 05/15/2021	€1,571,063	1,743,902
Kraton Polymers, LLC, Initial Term Loan, 6.00%, 01/06/2022	\$3,500,000	3,519,250
PQ Corporation, Tranche B-1 Term Loan, 5.75%, 11/04/2022	1,243,781	1,242,226
		9,418,513

Consumer Goods: Durable 0.6%

NBTY, Inc., USD Term B Loan, 5.00%, 05/05/2023	2,174,550	2,180,487
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Consumer Goods: Non-Durable 0.5%

G-III Apparel Group, Ltd., Term Loan B, L+ 5.25%, 10/05/2022 ^(c)	2,068,966	2,056,034
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Containers, Packaging & Glass 0.6%

Fort Dearborn Company, 2nd Lien Term Loan, 9.50%, 10/07/2024	625,000	631,250
Fort Dearborn Holding Company, Inc., Initial Term Loan 1st Lien,	1,875,000	1,883,213

5.00%, 10/19/2023

2,514,463

Energy: Electricity 0.4%

Cortes NP Acquisition Corp.,

Term Loan B,

L+ 5.00%, 09/29/2023^(c)

1,650,000

1,639,687

Energy: Oil & Gas 2.8%

California Resources

Corporation,

Initial Loan,

11.38%, 12/31/2021

1,925,000

2,066,969

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

Floating Rate Term Loans^(b) (continued)

	Principal Amount	Value ^(a)
Chesapeake Energy Corp., Class A Term Loan, 8.50%, 08/23/2021	\$3,500,000	\$ 3,738,455
Energy & Exploration Partners, LLC, 2nd Lien Term Loan, 5.00%, 05/13/2022 ^(d)	156,403	105,572
Energy & Exploration Partners, LLC, Tranche A Term Loan 1st Lien, 13.00%, 11/12/2021 ^(d)	280,535	284,742
Energy & Exploration Partners, LLC, Tranche B Term Loan, 13.00%, 11/12/2021 ^{(d)(e)}	107,898	1,618
MEG Energy Corp., Initial Term Loan, L+ 2.75%, 03/31/2020 ^(c)	1,000,000	942,030
Western Refining, Inc., 2016 Incremental Term Loan, 5.50%, 06/23/2023	3,715,688	3,708,739
		10,848,125
Healthcare & Pharmaceuticals 2.6%		
DJO Finance, LLC, Initial Term Loan, L+ 3.25%, 06/08/2020 ^(c)	1,042,120	1,030,397
Envigo Holdings, Inc., Term Loan, L+ 8.50%, 10/28/2021 ^{(c)(d)}	1,153,846	1,136,538
Envision Healthcare Corporation, Tranche B-2 Term Loan, 4.50%, 10/28/2022	1,983,756	1,989,965
Financiere Verdi I S.A.S, Facility B, (France), 5.00%, 06/21/2023	€ 615,385	1,791,081
Immucor, Inc., Term B-2 Loan, L+ 3.75%, 08/17/2018 ^(c)	\$ 300,000	292,800
Kinetic Concepts, Inc., USD Term F Loan,	997,494	1,004,357

5.00%, 11/04/2020

Lantheus Medical Imaging, Inc.,

Initial Term Loan,

L+ 6.00%, 06/30/2022^(c)

706,284

692,158

Press Ganey Holdings, Inc.,

Initial Loan 2nd Lien,

L+ 7.25%, 10/21/2024^(c)

555,556

562,500

Press Ganey Holdings, Inc.,

Initial Term Loan,

L+ 3.25%, 10/21/2023^(c)

1,750,000

1,750,000

10,249,796**Floating Rate Term Loans^(b) (continued)**

	Principal Amount	Value^(a)
High Tech Industries 3.9%		
Applied Systems, Inc., 2nd Lien Term Loan, L+ 6.50%, 01/24/2022 ^(c)	\$2,000,000	\$ 2,011,880
Dell International, LLC, Term B Loan, 4.00%, 09/07/2023	2,180,328	2,195,219
Diebold, Inc., USD Term B Loan, 5.25%, 11/06/2023	1,790,000	1,808,652
ON Semiconductor Corp., 2016 Incremental Term Loan, 3.78%, 03/31/2023	3,080,000	3,096,940
Rocket Software, Inc., Loan, L+ 9.50%, 10/11/2024 ^(c)	665,514	667,178
Rocket Software, Inc., Term Loan, L+ 4.25%, 10/14/2023 ^(c)	1,255,931	1,261,168
Veritas US, Inc., Initial USD Term B-1 Loan, 6.63%, 01/27/2023	2,655,416	2,472,033
Western Digital Corporation, USD Term B Loan, 4.50%, 04/29/2023	1,847,370	1,867,155
		15,380,225
Hotel, Gaming & Leisure 1.6%		
Affinity Gaming, Term Loan 2nd Lien, L+ 8.25%, 09/23/2024 ^(c)	2,000,000	1,957,500
Mohegan Tribal Gaming Authority, Term B Loan, L+ 4.50%, 10/13/2023 ^(c)	4,230,769	4,213,592
		6,171,092
Media: Advertising, Printing & Publishing 1.3%		
	2,635,176	2,108,141

F&W Media, Inc., Initial Term Loan, 10.75%, 06/30/2019		
Lee Enterprises, Inc., Term Loan, 7.25%, 03/31/2019	525,532	525,532
LSC Communications, Inc., Term B Loan, 7.00%, 09/30/2022	1,000,000	990,000
Tribune Publishing Company, Initial Term Loan, 5.75%, 08/04/2021	1,440,000	1,400,400
		5,024,073

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

Floating Rate Term Loans^(b) (continued)

	Principal Amount	Value ^(a)
Media: Broadcasting & Subscription 1.4%		
Cumulus Media Holdings, Inc., Term Loan, 4.25%, 12/23/2020	\$3,600,000	\$ 2,475,000
Intelsat Jackson Holdings S.A., Tranche B-2 Term Loan, (Luxembourg), 3.75%, 06/30/2019	3,000,000	2,865,330
RCN Corporation, Commitment Bridge Loan, L+ 6.75%, 10/18/2017 ^{(c)(d)(e)}	3,500,000	
		5,340,330
Media: Diversified & Production 1.8%		
Delta 2 (LUX) Sarl, Facility B-3 USD, (Luxembourg), 4.75%, 07/30/2021	1,500,000	1,502,085
Delta 2 (LUX) Sarl, Term Loan 2nd Lien, (Luxembourg), 7.75%, 07/29/2022	1,000,000	1,006,670
Equinox Holdings, Inc., 2nd Lien Term Loan, L+ 8.50%, 07/31/2020 ^(c)	1,375,000	1,373,281
Equinox Holdings, Inc., Initial Term Loan, 5.00%, 01/31/2020	3,220,174	3,238,304
		7,120,340
Metals & Mining 1.7%		
Freeport-McMoran Copper & Gold, Inc., Term Loan A, 3.29%, 05/31/2018	599,732	597,111
Freeport-McMoran, Inc., 2020 Loan, 3.29%, 02/28/2020	1,500,000	1,447,500
Murray Energy Corporation, Term Loan B-2, L+ 7.25%, 04/16/2020 ^(c)	4,493,219	4,107,072
Zekelman Industries, Inc., Term Loan,	598,500	602,240

6.00%, 06/14/2021

6,753,923

Printing and Publishing 0.5%

Dex Media, Inc.,

Closing Date Loan,

L+ 10.00%, 07/29/2021^(c)

2,109,696

2,049,928

Floating Rate Term Loans^(b) (continued)**Principal
Amount****Value^(a)****Retail 6.3%**

Academy, Ltd.,

Initial Term Loan,

L+ 4.00%, 07/01/2022^(c)

\$1,875,000

\$ 1,816,988

GOBP Holdings, Inc.,

1st Lien Term Loan,

5.00%, 10/21/2021

3,223,318

3,217,677

GOBP Holdings, Inc.,

2nd Lien Term Loan,

9.25%, 10/21/2022

1,750,000

1,744,173

Harbor Freight Tools USA, Inc.,

Initial Loan 2nd Lien,

4.14%, 08/19/2023

3,692,977

3,717,203

J.C. Penney Corp., Inc.,

Initial Loan,

5.25%, 06/23/2023

2,484,375

2,498,660

Petco Animal Supplies, Inc.,

Tranche B-1 Term Loan,

5.00%, 01/26/2023

2,481,250

2,501,026

Rite Aid Corporation,

2nd Priority Tranche 1 Term

Loan,

5.75%, 08/21/2020

4,170,000

4,181,718

Rite Aid Corporation,

Tranche 2 Term Loan,

4.88%, 06/21/2021

3,575,000

3,585,439

True Religion Apparel, Inc.,

Initial Term Loan,

5.88%, 07/30/2019

4,342,500

1,116,630

True Religion Apparel, Inc.,

Initial Term Loan 2nd Lien,

11.00%, 01/30/2020^(d)

1,369,565

241,687

24,621,201**Services: Business 5.2%**

Cypress Semiconductor Corp.,

2016 Incremental Term Loan

Facility,

6.50%, 07/05/2021

2,468,750

2,498,079

Micron Technology, Inc.,

Term Loan,

4.29%, 04/26/2022

1,745,625

1,755,453

Solera, LLC, USD Term Loan, 5.75%, 03/03/2023	1,492,500	1,508,126
Syncreon Global Finance (US), Inc., Term Loan, 5.25%, 10/28/2020	3,968,773	3,547,091
TMF Group Holding B.V., Term Loan B, (Netherlands), L+ 4.00%, 09/29/2023 ^(c)	€1,211,599	1,346,580

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

Floating Rate Term Loans^(b) (continued)

	Principal Amount	Value^(a)
TMF Group Holding B.V., Term Loan B-2, (Netherlands), L+ 4.00%, 09/29/202 ^(c)	€ 538,401	\$ 590,465
Travelport Finance Sarl, Term B Loan, (Luxembourg), 5.00%, 09/02/2021	\$5,826,716	5,858,763
VWR Funding, Inc., Tranche B Term Loan, 4.00%, 01/15/2022	€977,500	3,300,137
		20,404,694
Services: Consumer 0.4%		
Weight Watchers International, Inc., Initial Tranche B-2 Term Loan, 4.10%, 04/02/2020	\$1,984,576	1,506,293
Technology 0.8%		
Allflex Holdings III, Inc., (U.S.), Initial Term Loan 2nd Lien, 8.00%, 07/19/2021	3,000,000	3,000,000
Telecommunications 1.3%		
Rackspace Hosting, Inc., Term Loan, L+ 4.25%, 10/26/2023 ^(c)	2,200,000	2,211,352
Windstream Services, LLC, Tranche B-6 Term Loan, 4.75%, 03/29/2021	3,000,000	3,006,870
		5,218,222
Transportation: Consumer 1.0%		
Air Medical Group Holdings, Inc., Initial Term Loan, 4.25%, 04/28/2022	3,950,000	3,912,988
Utilities: Electric 0.6%		
TEX Operations Company, LLC, Term C Loan, 5.00%, 08/04/2023	456,609	460,604
TEX Operations Company, LLC, Term Loan, 5.00%, 08/04/2023	2,002,053	2,019,571
		2,480,175
Utilities: Oil & Gas 1.7%		

Alinta Energy Finance Pty, Ltd., Delayed Draw Term Loan, (Australia), 6.38%, 08/13/2018	408,794	407,568
Floating Rate Term Loans^(b) (continued)		

	Principal Amount	Value^(a)
Alinta Energy Finance Pty, Ltd., Term B Loan, (Australia), 6.38%, 08/13/2019	\$6,159,323	\$ 6,140,844
		6,548,412
Total Floating Rate Term Loans (Cost: \$188,151,056)		184,199,590

Corporate Bonds 61.8%**Aerospace and Defense 1.1%**

Engility Corp., 144A, 8.88%, 09/01/2024	1,600,000	1,632,000
Leidos, Inc., 7.13%, 07/01/2032	2,500,000	2,581,688
		4,213,688

Automotive 0.4%

Dana Financing Luxembourg Sarl, 144A, (Luxembourg), 6.50%, 06/01/2026	1,500,000	1,595,625
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Banking, Finance, Insurance & Real Estate 1.9%

Builders FirstSource, Inc., 144A, 10.75%, 08/15/2023	5,270,000	6,060,500
Hillman Group, Inc., 144A, 6.38%, 07/15/2022	1,500,000	1,391,250
		7,451,750

Beverage, Food and Tobacco 0.8%

Albertsons Cos, LLC, 144A, 5.75%, 03/15/2025	820,000	809,496
Albertsons Cos, LLC, 144A, 6.63%, 06/15/2024	610,000	632,875
Iceland Bondco PLC, (Great Britain), 6.25%, 07/15/2021	£1,500,000	1,762,703
		3,205,074

Chemicals, Plastics & Rubber 2.4%

GCP Applied Technologies, 144A, 9.50%, 02/01/2023	\$5,250,000	5,945,625
Kraton Polymers, LLC, 144A, 10.50%, 04/15/2023	1,000,000	1,120,000
PQ Corp., 144A, 6.75%, 11/15/2022	2,000,000	2,157,500
		9,223,125

Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

Corporate Bonds (continued)

	Principal Amount	Value ^(a)
Construction & Building 1.6%		
Aer Cap Global Aviation Trust, 8.75%, 03/15/2017	\$4,000,000	\$ 4,099,360
Aer Cap Global Aviation Trust, 8.88%, 09/01/2017	2,000,000	2,107,500
		6,206,860
Consumer Goods: Durable 0.6%		
NBTY, Inc., 144A, 7.63%, 05/15/2021	2,500,000	2,443,750
Containers, Packaging & Glass 5.3%		
Albea Beauty Holdings S.A., 144A, (Luxembourg), 8.38%, 11/01/2019	5,365,000	5,579,600
Ardagh Packaging Finance PLC, 144A, (Ireland), 7.25%, 05/15/2024	3,000,000	3,165,000
Crown Cork & Seal Co., Inc., 7.38%, 12/15/2026	3,350,000	3,760,375
GCL Holdings S.C.A., 144A, (Luxembourg), 9.38%, 04/15/2018	€5,500,000	6,182,649
Guala Closures S.p.A., 144A, (Italy), 5.08%, 11/15/2019 ^(f)	695,000	762,588
Reynolds Group Issuer, Inc., 9.88%, 08/15/2019	\$ 662,000	678,550
Reynolds Group Issuer, Inc., 144A, 7.00%, 07/15/2024	695,000	742,781
		20,871,543
Energy: Oil & Gas 6.6%		
Concho Resources, Inc., 5.50%, 04/01/2023	430,000	439,890
Concho Resources, Inc., 6.50%, 01/15/2022	1,000,000	1,035,000
Continental Resources, Inc., 7.38%, 10/01/2020	2,000,000	2,051,400
Denbury Resources, Inc., 144A, 9.00%, 05/15/2021	3,000,000	3,090,000
	2,000,000	1,570,000

EP Energy, LLC, 9.38%, 05/01/2020		
Extraction Oil & Gas Holdings, LLC, 144A, 7.88%, 07/15/2021	3,000,000	3,172,500
Gibson Energy, Inc., 144A, (Canada), 6.75%, 07/15/2021	3,316,000	3,407,190
Corporate Bonds (continued)		

	Principal Amount	Value^(a)
MEG Energy Corp., 144A, (Canada), 6.50%, 03/15/2021	\$2,000,000	\$ 1,725,000
MEG Energy Corp., 144A, (Canada), 7.00%, 03/31/2024	1,000,000	832,500
Midstates Petroleum Company, Inc., 9.25%, 06/01/2021 ⁽⁹⁾	3,500,000	35,000
Midstates Petroleum Company, Inc., 10.75%, 10/01/2020 ⁽⁹⁾	2,000,000	20,000
Newfield Exploration Co, 5.63%, 07/01/2024	2,500,000	2,600,000
ONEOK, Inc., 7.50%, 09/01/2023	1,700,000	1,946,500
Targa Resources Partners LP, 6.75%, 03/15/2024	2,250,000	2,407,500
Whiting Petroleum Corp., 5.00%, 03/15/2019	1,750,000	1,662,500
		25,994,980
Healthcare & Pharmaceuticals 3.8%		
BioScrip, Inc., 8.88%, 02/15/2021	1,665,000	1,540,125
DJO Finance, LLC, 144A, 8.13%, 06/15/2021	2,000,000	1,835,000
Greatbatch, Ltd., 144A, 9.13%, 11/01/2023	2,145,000	2,059,200
HCA, Inc., 5.25%, 04/15/2025	1,500,000	1,571,250
HCA, Inc., 8.00%, 10/01/2018	1,500,000	1,663,125
IASIS Healthcare, LLC, 8.38%, 05/15/2019	3,000,000	2,857,500
Kinetic Concepts, Inc., 144A, 7.88%, 02/15/2021	1,000,000	1,077,500
Kinetic Concepts, Inc., 144A, 9.63%, 10/01/2021	2,500,000	2,415,625
		15,019,325

High Tech Industries 1.7%

Diebold, Inc., 144A, 8.50%, 04/15/2024	1,100,000	1,165,725
Syniverse Holdings, Inc., 9.13%, 01/15/2019	3,500,000	2,800,000
TIBCO Software, Inc., 144A, 11.38%, 12/01/2021	1,000,000	965,000

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

Corporate Bonds (continued)

	Principal Amount	Value ^(a)
Western Digital Corp., 144A, 10.50%, 04/01/2024	\$1,500,000	\$ 1,732,500
		6,663,225
Hotel, Gaming & Leisure 2.4%		
Gala Group Finance, PLC, 144A, (Great Britain), 8.88%, 09/01/2018	£ 293,920	367,703
Gala Group Finance, PLC, 144A, (Great Britain), 11.50%, 06/01/2019 ^(d)	2,704,546	3,418,626
MGM Resorts International, 8.63%, 02/01/2019	\$1,000,000	1,121,875
MGM Resorts International, 11.38%, 03/01/2018	2,000,000	2,235,000
Mohegan Tribal Gaming Authority, 144A, 7.88%, 10/15/2024	2,222,000	2,255,330
		9,398,534
Media: Advertising, Printing & Publishing 1.5%		
EMI Music Publishing Group North America Holdings, Inc., 144A, 7.63%, 06/15/2024	1,400,000	1,512,000
Lee Enterprises, Inc., 144A, 9.50%, 03/15/2022	4,275,000	4,403,250
		5,915,250
Media: Broadcasting & Subscription 14.5%		
Altice Financing S.A., 144A, (Luxembourg), 6.63%, 02/15/2023	1,000,000	1,030,000
Altice Financing S.A., 144A, (Luxembourg), 7.50%, 05/15/2026	2,000,000	2,060,000
Altice Financing S.A., 144A, (Luxembourg), 9.88%, 12/15/2020	2,500,000	2,646,875
Belo Corp., 7.25%, 09/15/2027	4,500,000	4,758,750
Block Communications, Inc., 144A,	1,177,000	1,203,482

7.25%, 02/01/2020		
Cablevision Systems Corp.,		
8.63%, 09/15/2017	4,619,000	4,826,855
CSC Holdings, LLC,		
8.63%, 02/15/2019	2,000,000	2,220,000
Lamar Media Corp.,		
5.38%, 01/15/2024	2,000,000	2,105,000
Corporate Bonds (continued)		
	Principal Amount	Value^(a)
LIN Television Corp.,		
6.38%, 01/15/2021	\$ 895,000	\$ 922,969
Midcontinent Communications, 144A,		
6.88%, 08/15/2023	1,750,000	1,863,750
Nexstar Broadcasting, Inc.,		
6.88%, 11/15/2020	2,875,000	2,979,219
Nexstar Broadcasting, Inc., 144A,		
6.13%, 02/15/2022	1,000,000	1,025,000
RCN Telecom Services, LLC, 144A,		
8.50%, 08/15/2020	1,000,000	1,065,625
SFR Group SA, 144A, (France),		
6.25%, 05/15/2024	1,000,000	999,370
SFR Group SA, 144A, (France),		
7.38%, 05/01/2026	5,000,000	5,050,000
Sinclair Television Group, Inc.,		
6.13%, 10/01/2022	2,000,000	2,112,580
Sinclair Television Group, Inc., 144A,		
5.63%, 08/01/2024	500,000	506,250
Sirius XM Radio, Inc., 144A,		
5.38%, 04/15/2025	1,500,000	1,529,850
TEGNA, Inc.,		
6.38%, 10/15/2023	1,500,000	1,586,250
Tribune Media Co, 5.88%, 07/15/2022	3,000,000	3,000,000
Univision Communications, Inc., 144A,		
8.50%, 05/15/2021	1,963,000	2,022,915
Virgin Media Secured Finance PLC, 144A, (Great Britain),		
5.25%, 01/15/2026	3,500,000	3,463,950
WaveDivision Holdings, LLC, 144A,		
8.13%, 09/01/2020	2,185,000	2,277,862

WideOpenWest Finance, LLC, 10.25%, 07/15/2019	5,327,000	5,593,350
		56,849,902
Media: Diversified & Production 2.4%		
ClubCorp Club Operations, Inc., 144A, 8.25%, 12/15/2023	2,500,000	2,662,500
Life Time Fitness, Inc., 144A, 8.50%, 06/15/2023	2,000,000	2,035,000
Live Nation Entertainment, Inc., 144A, 7.00%, 09/01/2020	4,500,000	4,671,900
		9,369,400

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments *(continued)*

October 31, 2016

Corporate Bonds *(continued)*

	Principal Amount	Value ^(a)
Metals & Mining 6.0%		
Alcoa Nederland Holding B.V., 144A, 6.75%, 09/30/2024	\$1,000,000	\$ 1,035,000
Anglo American Capital PLC, 144A, (Great Britain), 9.38%, 04/08/2019	4,750,000	5,438,750
Constellium NV, 144A, (Netherlands), 8.00%, 01/15/2023	250,000	243,750
First Quantum Minerals, Ltd., 144A, (Canada), 7.00%, 02/15/2021	1,000,000	949,375
First Quantum Minerals, Ltd., 144A, (Canada), 7.25%, 10/15/2019	250,000	246,563
First Quantum Minerals, Ltd., 144A, (Canada), 7.25%, 05/15/2022	2,600,000	2,460,250
FMG Resources August 2006 Pty, Ltd., 144A, (Australia), 9.75%, 03/01/2022	3,500,000	4,060,000
Freeport-McMoran Copper & Gold, Inc., 6.50%, 11/15/2020	1,500,000	1,531,875
Freeport-McMoran Copper & Gold, Inc., 6.88%, 02/15/2023	750,000	778,125
HudBay Minerals, Inc., (Canada), 9.50%, 10/01/2020	4,000,000	4,100,000
United States Steel Corp., 144A, 8.38%, 07/01/2021	2,000,000	2,125,000
Zekelman Industries, Inc., 144A, 9.88%, 06/15/2023	500,000	526,250
		23,494,938
Retail 2.4%		
JC Penney Corporation, Inc., 8.13%, 10/01/2019	2,782,000	3,028,902
	1,025,000	1,088,038

L Brands, Inc., 6.75%, 07/01/2036		
L Brands, Inc., 8.50%, 06/15/2019	4,000,000	4,650,000
Rite Aid Corp., 144A, 6.13%, 04/01/2023	690,000	727,950
		9,494,890
Services: Business 2.9%		
Ashtead Capital, Inc., 144A, 6.50%, 07/15/2022	2,000,000	2,097,500
Corporate Bonds (continued)		
	Principal Amount	Value^(a)
Ceridian HCM Holding, Inc., 144A, 11.00%, 03/15/2021	\$1,000,000	\$ 1,052,500
Hertz Corp., 144A, 5.50%, 10/15/2024	1,200,000	1,165,080
Solera, LLC, 144A, 10.50%, 03/01/2024	2,500,000	2,794,550
TMF Group Holding B.V., 144A, (Netherlands), 9.88%, 12/01/2019	€750,000	4,359,384
		11,469,014
Telecommunications 2.5%		
Digicel Group, Ltd., 144A, (Bermuda), 8.25%, 09/30/2020	\$2,750,000	2,433,750
Frontier Communications Corp., 11.00%, 09/15/2025	2,250,000	2,303,775
Sprint Communications, Inc., 9.13%, 03/01/2017	2,000,000	2,040,000
T-Mobile USA, Inc., 6.63%, 04/28/2021	3,000,000	3,146,250
		9,923,775
Utilities: Electric 0.8%		
Dynegy, Inc., 7.63%, 11/01/2024	1,250,000	1,196,875
Dynegy, Inc., 144A, 8.00%, 01/15/2025	1,500,000	1,447,500
NRG Energy, Inc., 7.88%, 05/15/2021	275,000	287,375
NRG Energy, Inc., 144A, 7.25%, 05/15/2026	375,000	368,966
		3,300,716
Total Corporate Bonds (Cost: \$248,164,458)		242,105,364
Collateralized Loan Obligations/ Collateralized Debt Obligations 35.5%		

AMMC CLO XIII, Ltd., 144A, (Cayman Islands), 5.68%, 01/26/2026 ^(f)	3,000,000	2,703,396
AMMC CLO XIV, Ltd., 144A, (Cayman Islands), 5.68%, 07/27/2026 ^(f)	1,500,000	1,278,690
Apidos CLO XII, 144A, (Cayman Islands), 5.08%, 04/15/2025 ^(f)	2,000,000	1,790,846

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

**Collateralized Loan Obligations/
Collateralized Debt Obligations** (continued)

	Principal Amount	Value^(a)
Apidos CLO XVI, 144A, (Cayman Islands), 5.38%, 01/19/2025 ^(f)	\$2,000,000	\$ 1,720,212
Atlas Senior Loan Fund III, Ltd., 144A, (Cayman Islands), 08/18/2025	1,500,000	834,642
Atlas Senior Loan Fund IV, Ltd., 144A, (Cayman Islands), 5.52%, 02/17/2026 ^(f)	2,000,000	1,695,042
Atlas Senior Loan Fund VI, Ltd., 144A, (Cayman Islands), 6.08%, 10/15/2026 ^(f)	1,000,000	865,798
Atrium CLO VII, 144A, (Cayman Islands), 11/16/2022	1,600,000	1,203,794
Atrium XI, 144A, (Cayman Islands), 5.98%, 10/23/2025 ^(f)	5,590,000	4,978,856
Babson CLO, Ltd., 2013-II, 144A, (Cayman Islands), 5.38%, 01/18/2025 ^(f)	2,000,000	1,721,522
Canyon Capital CLO 2015-1, Ltd., 144A, (Cayman Islands), 6.33%, 04/15/2027 ^(f)	1,500,000	1,321,577
Carlyle Global Market Strategies CLO 2013-4, Ltd., 144A, (Cayman Islands), 10/15/2025	1,259,000	694,531
Carlyle Global Market Strategies CLO 2014-1, Ltd., 144A, (Cayman Islands), 5.33%, 04/17/2025 ^(f)	5,000,000	4,341,540
Cedar Funding IV CLO, Ltd., 144A, (Cayman Islands), 10/23/2026	4,000,000	3,344,772
Cedar Funding VI CLO, Ltd., 144A, (Cayman Islands), 10/20/2028 ^(d)	2,000,000	1,757,500
	3,000,000	2,584,221

Cent CLO XVIII, Ltd., 144A, (Cayman Islands), 5.48%, 07/23/2025 ^(f)		
Cent CLO XXIII, Ltd., 144A, (Cayman Islands), 6.28%, 04/17/2026 ^(f)	2,750,000	2,404,803
Clear Creek CLO, Ltd., 144A, (Cayman Islands), 6.63%, 04/20/2027 ^(f)	1,000,000	920,380

**Collateralized Loan Obligations/
Collateralized Debt Obligations** *(continued)*

	Principal Amount	Value^(a)
Denali Capital CLO XI, Ltd., 2015-1A D, 144A, (Cayman Islands), 6.33%, 04/20/2027 ^(f)	\$1,000,000	\$ 886,342
Denali Capital CLO XI, Ltd., 2015-1A E, 144A, (Cayman Islands), 6.83%, 04/20/2027 ^(f)	2,000,000	1,529,238
Denali Capital CLO XI, Ltd., 2015-1X D, 144A, (Cayman Islands), 6.15%, 04/20/2027 ^(f)	460,000	407,717
Denali Capital CLO XII, Ltd., 2016-1A E, 144A, (Cayman Islands), 8.63%, 04/15/2028 ^(f)	5,000,000	5,020,180
Dorchester Park CLO, Ltd., 144A, (Ireland), 6.13%, 01/20/2027 ^(f)	625,000	590,433
Dorchester Park CLO, Ltd., 144A, (Ireland), 7.13%, 01/20/2027 ^(f)	4,000,000	3,315,180
Dryden XXV Senior Loan Fund, 144A, (Cayman Islands), 01/15/2025	250,000	129,947
Dryden XXXVI Senior Loan Fund, 144A, (Cayman Islands), 5.99%, 11/09/2025 ^(f)	4,370,000	3,898,783
Dryden XXXVII Senior Loan Fund, 144A, (Cayman Islands), 6.28%, 04/15/2027 ^(f)	1,250,000	1,113,958
Dryden XLII Senior Loan Fund, 144A, (Cayman Islands), 8.13%, 07/15/2027 ^(f)	1,500,000	1,490,121
Flatiron CLO 2013-1, Ltd., 144A, (Cayman Islands), 5.78%, 01/17/2026 ^(f)	1,750,000	1,487,073

Galaxy XIX CLO, Ltd., 144A, (Cayman Islands), 5.98%, 01/24/2027 ^(f)	800,000	709,135
Galaxy XX CLO, Ltd., 144A, (Cayman Islands), 6.38%, 07/20/2027 ^(f)	3,500,000	3,116,764
Goldentree Loan Opportunities VI, Ltd., 144A, (Cayman Islands), 04/17/2022	1,500,000	280,556
Goldentree Loan Opportunities X, Ltd., 144A, (Cayman Islands), 5.90%, 07/20/2027 ^(f)	1,500,000	1,312,107

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

**Collateralized Loan Obligations/
Collateralized Debt Obligations** (continued)

	Principal Amount	Value ^(a)
Goldentree Loan Opportunities XI, Ltd., 144A, (Cayman Islands), 6.43%, 04/18/2027 ^(f)	\$1,000,000	\$ 899,821
Greywolf CLO II, Ltd., 144A, (Cayman Islands), 5.38%, 04/15/2025 ^(f)	1,500,000	1,350,848
Halcyon Loan Advisors Funding 2013-1, Ltd., 144A, (Cayman Islands), 4.38%, 04/15/2025 ^(f)	4,000,000	3,445,984
Halcyon Loan Advisors Funding 2015-1, Ltd., 144A, (Cayman Islands), 6.53%, 04/20/2027 ^(f)	750,000	606,297
Halcyon Loan Advisors Funding 2015-3, Ltd., 144A, (Cayman Islands), 6.83%, 10/18/2027 ^(f)	2,500,000	2,072,342
Jamestown CLO IV, Ltd., 144A, (Cayman Islands), 5.88%, 07/15/2026 ^(f)	2,000,000	1,567,860
Jamestown CLO VI, Ltd., 144A, (Cayman Islands), 5.56%, 02/20/2027 ^(f)	900,000	736,025
LCM XII, L.P., 144A, (Cayman Islands), 10/19/2022	1,000,000	577,428
LCM XIII, L.P., 144A, (Cayman Islands), 01/19/2023	1,775,000	1,011,913
LCM XV, L.P., 144A, (Cayman Islands), 08/25/2024	5,875,000	3,056,909
Madison Park Funding IV, Ltd., 144A, (Cayman Islands), 03/22/2021	3,700,000	4,878,498
Madison Park Funding XII, Ltd., 144A, (Cayman Islands),	4,000,000	2,943,340

07/20/2026

Madison Park Funding XIII, Ltd., 144A, (Cayman Islands), 5.88%, 01/19/2025 ^(f)	5,250,000	4,770,139
Madison Park Funding XIV, Ltd., 144A, (Cayman Islands), 5.63%, 07/20/2026 ^(f)	2,750,000	2,453,278
Magnetite XIV, Ltd., 144A, (Cayman Islands), 7.38%, 07/18/2028 ^(f)	4,000,000	3,280,180

**Collateralized Loan Obligations/
Collateralized Debt Obligations** *(continued)*

	Principal Amount	Value^(a)
Mountain Hawk III CLO, Ltd., 144A, (Cayman Islands), 5.73%, 04/18/2025 ^(f)	\$2,000,000	\$ 1,504,388
Nautique Funding, Ltd., 144A, (Cayman Islands), 04/15/2020	1,300,000	575,699
Northwoods Capital X, Ltd., 144A, (Cayman Islands), 5.37%, 11/04/2025 ^(f)	2,000,000	1,703,624
Northwoods Capital XI, Ltd., 144A, (Cayman Islands), 4.33%, 04/15/2025 ^(f)	2,500,000	2,279,167
Oaktree CLO, Ltd. 2015-1A, 144A, (Cayman Islands), 10/20/2027	4,000,000	3,048,800
Octagon Investment Partners XVIII, Ltd., 144A, (Cayman Islands), 6.07%, 12/16/2024 ^(f)	2,600,000	2,418,991
OHA Credit Partners VI, Ltd., 144A, (Cayman Islands), 4.93%, 05/15/2023 ^(f)	750,000	692,929
OHA Loan Funding 2013-1, Ltd., 144A, (Cayman Islands), 07/23/2025	3,000,000	1,996,644
OZLM Funding V, Ltd., 144A, (Cayman Islands), 5.63%, 01/17/2026 ^(f)	2,900,000	2,639,302
OZLM VII, Ltd., 144A, (Cayman Islands), 5.88%, 07/17/2026 ^(f)	2,750,000	2,389,728
OZLM XI, Ltd., 144A, (Cayman Islands), 6.29%, 01/30/2027 ^(f)	2,000,000	1,776,098
OZLM XIV, Ltd., 144A, (Cayman Islands),	4,500,000	4,236,304

7.03%, 01/15/2029 ^(f) Steele Creek CLO 2014-1, Ltd., 144A, (Cayman Islands), 4.21%, 08/21/2026 ^(f)	2,450,000	2,263,327
THL Credit Wind River 2015-2 CLO, Ltd., 144A, (Cayman Islands), 6.58%, 10/15/2027 ^(f)	4,000,000	3,619,904
THL Credit Wind River 2016-1 CLO, Ltd., 144A, (Cayman Islands), 8.22%, 07/15/2028 ^(f)	3,500,000	3,488,817

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments (continued)

October 31, 2016

**Collateralized Loan Obligations/
Collateralized Debt Obligations** (continued)

	Principal Amount	Value^(a)
TICP CLO III, Ltd, 144A, (Cayman Islands), 6.43%, 01/20/2027 ^(f)	\$4,000,000	\$ 3,413,148
Venture XIII CLO, Ltd., 144A, (Cayman Islands), 6.15%, 06/10/2025 ^(f)	1,500,000	1,327,589
West CLO 2013-1, Ltd., 144A, (Cayman Islands), 11/07/2025	500,000	176,635
West CLO 2013-1, Ltd., 144A, (Cayman Islands), 4.44%, 11/07/2025 ^(f)	3,000,000	2,603,775
WhiteHorse VII, Ltd., 144A, (Cayman Islands), 4.53%, 11/24/2025 ^(f)	2,000,000	1,857,298
Total Collateralized Loan Obligations/ Collateralized Debt Obligations (Cost: \$136,341,385)		139,112,685

Common Stocks 1.9%^(h)

	Shares	Value^(a)
Energy: Oil & Gas 1.5%		
Energy & Exploration Partners, LLC ^(d)	402	\$ 153,564
Halcon Resources Corp.	292,519	2,618,045
Templar Energy, LLC, New Class A Common Equity	145,457	872,741
Templar Energy, LLC, New Preferred Equity	212,182	2,280,956
		5,925,306
Printing and Publishing 0.2%		
Dex Media, Inc.	266,744	586,837
Services: Business 0.2%		
Affinion Group Holdings, Inc.	110,400	828,000
Total Common Stocks (Cost: \$16,550,471)		7,340,143
		\$ 572,757,782

Total Investments 146.2%

(Cost: \$589,207,370)

Liabilities in Excess of

Other Assets (46.2%)

(180,970,731)

Net Assets 100.0%

\$ 391,787,051

Footnotes:

(a) Investment holdings in foreign currencies are converted to U.S. Dollars using period end spot rates. All investments are in United States enterprises unless otherwise noted.

(b) Interest rates on floating rate term loans adjust periodically based upon a predetermined schedule. Stated interest rates in this schedule represents the "all-in" rate as of October 31, 2016.

(c) This position or a portion of this position represents an unsettled loan purchase. The interest rate will be determined at the time of settlement and will be based upon the London-Interbank Offered Rate ("LIBOR" or "L") or the applicable LIBOR floor plus a spread which was determined at the time of purchase.

(d) Security valued at fair value using methods determined in good faith by or under the direction of the board of directors.

(e) Reported net of unfunded commitments, reduced by any upfront payments received if purchased at a discount, see Note 2.

(f) Variable rate coupon rate shown as of October 31, 2016.

(g) See Note 4 regarding defaulted securities.

(h) Non-income producing security.

As of October 31, 2016, the aggregate cost of securities for Federal income tax purposes was \$589,426,950.

Unrealized appreciation and depreciation on investments for Federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 15,924,667
Gross unrealized depreciation	(32,593,835)
Net unrealized depreciation	\$ (16,669,168)

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments *(continued)*

October 31, 2016

Abbreviations:

144A Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

CLO Collateralized Loan Obligation

Currencies:

€ Euro Currency

£ British Pounds

\$ U.S. Dollars

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Ares Dynamic Credit Allocation Fund, Inc.

Statement of Assets and Liabilities

October 31, 2016

Assets:

Investments, at value (cost \$589,207,370)	\$572,757,782
Cash	8,287,049
Cash denominated in foreign currency, at value (cost \$359,424)	358,796
Receivable for securities sold	6,362,728
Interest and principal receivable	6,210,565
Deferred debt issuance costs	113,069
Total assets	594,089,989

Liabilities:

Line of credit outstanding	168,027,371
Payable for securities purchased	33,335,502
Payable for investment advisory fees	480,391
Payable for interest expense	177,675
Payable for commitment fee	51,549
Payable for investor support fees	48,044
Payable for administration, custodian, and transfer agent fees	4,843
Accrued expenses and other payables	177,563
Total liabilities	202,302,938

Net assets \$ 391,787,051**Net assets consist of:**

Paid-in capital	\$445,066,437
Distributions in excess of net investment income	(222,899)
Accumulated net realized losses on investments and foreign currency	(38,680,505)
Net unrealized depreciation on investments and foreign currency	(14,375,982)

Net assets \$ 391,787,051**Common shares:**

Shares outstanding (authorized 1 billion shares of each Fund of \$0.001 par value)	22,991,775
Net asset value per share	\$17.04

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Ares Dynamic Credit Allocation Fund, Inc.

Statement of Operations

For the year ended October 31, 2016

Investment income:	
Interest	\$ 39,450,462
Expenses:	
Investment advisory fees (Note 6)	5,348,639
Interest expense (Note 5)	2,049,876
Administrative services of the adviser (Note 6)	910,555
Legal fees	558,143
Investor support fees (Note 6)	534,864
Administration, custodian and transfer agent fees (Note 6)	420,017
Insurance expense	311,001
Amortization of debt issuance cost (Note 5)	261,354
Audit fees	157,772
Directors fees	152,692
Commitment fee (Note 5)	104,359
Printing expense	95,176
Other expenses	80,292
Total expenses	10,984,740
Net investment income	28,465,722
Net realized and net change in unrealized gain (loss) on investments and foreign currency	
Net realized loss on investments	(32,491,932)
Net realized gain on foreign currency	5,486,956
Net change in unrealized appreciation (depreciation) on investments	32,452,035
Net change in unrealized appreciation (depreciation) on foreign currency	(3,652,603)
Net realized and net change in unrealized gain on investments and foreign currency	1,794,456
Net increase in net assets resulting from operations	\$ 30,260,178

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Ares Dynamic Credit Allocation Fund, Inc.

Statement of Changes in Net Assets

	Year Ended October 31, 2016	Year Ended October 31, 2015
Increase (decrease) in net assets from operations:		
Net investment income	\$ 28,465,722	\$ 21,316,206
Net realized loss on investments and foreign currency	(27,004,976)	(9,724,463)
Net change in unrealized appreciation (depreciation) on investments and foreign currency	28,799,432	(18,733,928)
Net increase (decrease) in net assets resulting from operations	30,260,178	(7,142,185)
Distributions to shareholders from:		
Net investment income	(28,847,985)	(24,213,323)
Net realized gains		(1,309,683)
Return of capital	(1,305,942)	(55,818)
Total distributions	(30,153,927)	(25,578,824)
Increase (decrease) in net assets from operations and distributions	106,251	(32,721,009)
Share transactions:		
Proceeds of shares issued in connection with fund merger		109,397,217
Cost of shares repurchased (Note 4)	(6,363,294)	
Net increase (decrease) from share transactions	(6,363,294)	109,397,217
Total increase (decrease) in net assets	(6,257,043)	76,676,208
Net Assets, beginning of period	398,044,094	321,367,886
Net Assets, end of period	\$ 391,787,051	\$ 398,044,094
Distributions in excess of net investment income	\$ (222,899)	\$ (250,896)

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Ares Dynamic Credit Allocation Fund, Inc.

Statement of Cash Flows

For the year ended October 31, 2016

Operating activities:

Increase in net assets resulting from operations	\$ 30,260,178
Adjustments to reconcile increase in net assets resulting from operations to net cash provided by operating activities:	
Purchases of investments	(551,282,115)
Proceeds from the sale of investments	561,872,573
Amortization and accretion of discounts and premiums, net	457,636
Net realized loss on investments	32,491,932
Net realized gain on foreign currency	(5,486,956)
Net change in unrealized (appreciation) depreciation on investments	(32,452,035)
Net change in unrealized (appreciation) depreciation on foreign currency	3,652,603
Changes in operating assets and liabilities:	
Interest and principal receivable	1,008,887
Prepaid expenses	33,147
Deferred debt issuance costs	83,351
Payable for investment advisory fees	(3,801)
Payable for interest expense	17,550
Payable for investor support fees	(380)
Payable for commitment fee	46,284
Payable for administration, custodian and transfer agent fees	(17,656)
Accrued expenses and other payables	(99,202)
Net cash provided by operating activities	40,581,996

Financing activities:

Borrowings on line of credit	151,788,371
Paydowns of line of credit	(152,745,093)
Cost of shares redeemed	(6,363,294)
Distributions paid to common shareholders	(30,153,927)
Net cash used in financing activities	(37,473,943)
Effect of exchange rate changes on cash	1,834,353
Net increase in cash	\$ 4,942,406

Cash:

Beginning of period	\$ 3,703,439
End of period	\$ 8,645,845

Supplemental disclosure of cash flow information:

Cash paid during the period for interest	\$ 2,032,326
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Ares Dynamic Credit Allocation Fund, Inc.

Financial Highlights

	For the Year Ended October 31, 2016	For the Year Ended October 31, 2015	For the Year Ended October 31, 2014	For the Period Ended October 31, 2013^(a)
Per share data:				
Net asset value, beginning of period	\$ 16.95	\$ 18.72	\$ 19.43	\$ 19.10
Income from investment operations:				
Net investment income	1.23	1.21	1.24	1.09
Net realized and net change in unrealized gain (loss)	0.16	(1.58)	(0.55)	0.45
Total income from investment operations	1.39	(0.37)	0.69	1.54
Less distributions declared to shareholders:				
From net investment income	(1.23)	(1.33)	(1.40)	(1.17)
From net realized gains		(0.07)		
From return of capital	(0.07)	(b)		
Total distributions declared to shareholders	(1.30)	(1.40)	(1.40)	(1.17)
Capital share transactions:				
Common share offering costs charged to paid-in capital				(0.04)
	\$ 17.04	\$ 16.95	\$ 18.72	\$ 19.43

Net asset value common shares, end of period				
Market value common shares, end of period	\$ 14.70	\$ 14.37	\$ 16.86	\$ 18.05
Net asset value total return ^(c)	8.98%	(2.11)%	3.54%	8.04% ^(d)
Market value total return ^(e)	12.47%	(6.74)%	1.02%	(4.03)% ^(d)
Ratios to average net assets/supplemental data:				
Net assets, end of period (in 000's)	\$ 391,787	\$ 398,044	\$ 321,368	\$ 333,526
Expenses, inclusive of interest expense and amortization of debt issuance costs	2.96%	2.83%	2.58%	2.18% ^(d)
Expenses, exclusive of interest expense and amortization of debt issuance costs	2.34%	2.39%	1.97%	1.74% ^(d)
Net investment income	7.68%	6.51%	6.40%	5.74% ^(d)
Portfolio turnover rate	92.30% ^(d)	89.67%	96.01%	189.46% ^(d)

(a) For the period from November 27, 2012 (commencement of operations) to October 31, 2013.

(b) Less than 0.005.

(c) Based on net asset value per share. Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Total Return is not

annualized for periods less than one year.

(d) Not annualized.

(e) Based on market value per share (beginning market value common shares \$20.00). Distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Total Return is not annualized for periods less than one year.

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Ares Dynamic Credit Allocation Fund, Inc.

Notes to Financial Statements

October 31, 2016

(1) Organization

Ares Dynamic Credit Allocation Fund, Inc. (NYSE: ARDC) ("ARDC" or "Fund") is a corporation incorporated under the laws of the State of Maryland and registered with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940, as amended (the "Investment Company Act"), as a closed-end, non-diversified, management investment company, and intends to qualify each year to be treated as a Regulated Investment Company ("RIC"), under Subchapter M of the Internal Revenue Code of 1986, as amended. The Fund commenced operations on November 27, 2012. Ares Capital Management II LLC (the "Adviser") was registered as a Registered Investment Adviser with the SEC on June 9, 2011 and serves as the investment adviser to the Fund.

Investment Objective and Policies

The Fund's investment objective is to seek an attractive risk adjusted level of total return, primarily through current income and, secondarily, through capital appreciation. The Fund seeks to achieve its investment objective by investing primarily in a broad, dynamically managed portfolio of (i) senior secured loans ("Senior Loans") made primarily to companies whose debt is rated below investment grade, (ii) corporate bonds ("Corporate Bonds") that are primarily high yield issues rated below investment grade, (iii) other fixed-income instruments of a similar nature that may be represented by derivatives, and (iv) securities issued by entities commonly referred to as collateralized loan obligations ("CLOs") and other asset-backed securities. The Fund's investments in CLOs include investments in subordinated tranches of CLO securities. The Adviser will dynamically allocate the Fund's portfolio among investments in the various targeted credit markets, to seek to manage interest rate and credit risk and the duration of the Fund's portfolio.

(2) Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in conformity with U.S. generally accepted accounting principles ("GAAP"), and include the accounts of the Fund. The Fund is an investment company following accounting and reporting guidance in Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 946, *Financial Services - Investment Companies*. The Advisor makes estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates and such differences may be material.

Investments Valuation

All investments in securities are recorded at their estimated fair value, as described in Note 3.

Revolving loan, bridge loan and delayed draw term loan agreements

For investment purposes, the Fund has entered into certain loan commitments which may include revolving loan, bridge loan, partially unfunded term loan and delayed draw term loan commitments ("unfunded loan commitments"). Unfunded loan commitments purchased at a discount/premium may include cash received/paid for the amounts

representing such discounts/premiums. Unfunded loan commitments are agreements to participate in the lending of up to a specified maximum amount for a specified period. As of October 31, 2016, the fair value of loans disclosed in the Schedule of Investments does not include unfunded loan commitments, which total \$3,607,898.

Interest Income

Interest income is recorded on the accrual basis to the extent that such amounts are expected to be collected, and adjusted for accretion of discounts and amortization of premiums. The Fund may have investments that contain payment-in-kind ("PIK") provisions. The PIK interest, computed at the contractual rate specified, is added to the principal balance and adjusted cost of the investments and recorded as interest income. The PIK interest for the year ended October 31, 2016 was \$36,456 recorded as interest income.

Discounts and Premiums

Discounts and premiums on securities purchased are accreted/amortized over the life of the respective security using the effective interest method. The adjusted cost of investments represents the original cost adjusted for PIK interest and the accretion of discounts and amortization of premiums.

Investment Transactions, Related Investment Income and Expenses

Investment transactions are accounted for on the trade date. Interest income, adjusted for amortization of premiums and accretion of discounts on investments, is earned from settlement date and is recorded on the accrual basis. Realized gains and losses are reported on the specific identification method. Expenses are recorded on the accrual basis as incurred.

Foreign Currency Transactions

Amounts denominated in foreign currencies are translated into U.S. dollars on the following basis: (i) investments and other

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Financial Statements *(continued)*

October 31, 2016

assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon currency exchange rates effective on the date of valuation; and (ii) purchases and sales of investments and income and expense items denominated in foreign currencies are translated into U.S. dollars based upon currency exchange rates prevailing on transaction dates.

The Fund does not isolate that portion of the results of operations resulting from the changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included within the net realized and unrealized gain on investments in the Statements of Operations.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates of securities transactions, and the difference between the amounts of income and expense items recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign currency gains and losses arise from the changes in fair values of assets and liabilities, other than investments in securities at year end, resulting from changes in exchange rates.

Investments in foreign companies and securities of foreign governments may involve special risks and considerations not typically associated with investing in U.S. companies and securities of the U.S. government. These risks include, among other things, revaluation of currencies, less reliable information about issuers, different transaction clearance and settlement practices, and potential future adverse political and economic developments. Moreover, investments in foreign companies and securities of foreign governments and their markets may be less liquid and their prices more volatile than those of comparable U.S. companies and the U.S. government.

Dividends to Shareholders

The Fund intends to make regular monthly cash distributions of all or a portion of its net investment income available to common shareholders. The Fund intends to pay common shareholders at least annually all or substantially all of its net investment income. The Fund intends to pay any capital gains distributions at least annually. Dividends to shareholders are recorded on the ex-dividend date.

The distributions for any full or partial year might not be made in equal amounts, and one distribution may be larger than another. The Fund will make distributions only if authorized by its board of directors and declared by the Fund out of assets legally available for these distributions. The Fund may pay a special distribution at the end of each calendar year. This

distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital to shareholders, which would reduce the Fund's net asset value and, over time, potentially increase the Fund's expense ratios. If the Fund distributes a return of capital, it means that the Fund is returning to shareholders a portion of their investment rather than making a distribution that is funded from the Fund's earned income or other profits. The board of directors may elect to change the Fund's distribution policy at any time.

Commitments

In the normal course of business, the Fund's investment activities involve executions, settlement and financing of various transactions resulting in receivables from, and payables to, brokers, dealers and the Fund's custodian. These activities may expose the Fund to risk in the event that such parties are unable to fulfill contractual obligations. Management does not anticipate any material losses from counterparties with whom it conducts business. Consistent with standard business practice, the Fund enters into contracts that contain a variety of indemnifications, and is engaged from time to time in various legal actions. The maximum exposure of the Fund under these arrangements and activities is unknown. However, the Fund expects the risk of material loss to be remote.

Income Taxes

The Fund intends to distribute all or substantially all of its taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to RICs. Accordingly, no provision for U.S. federal income taxes is required.

The Fund may elect to incur an excise tax if it is deemed prudent by its board of directors from a cash management perspective or in the best interest of shareholders due to other facts and circumstances. For the twelve months ended December 31, 2015, the Fund did not pay U.S. federal excise taxes.

As of October 31, 2016, the Fund had no uncertain tax positions that would require financial statement recognition, derecognition, or disclosure. The Fund files a U.S. federal income tax return annually after its fiscal year-end, which is subject to examination by the Internal Revenue Service for a period of three years from the date of filing.

Net investment income and net realized gains and losses may differ for financial statement and tax purposes because of temporary or permanent book/tax differences. These differences are primarily due to differing treatments for foreign currency gains and losses, defaulted bonds, paydown

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Financial Statements (continued)

October 31, 2016

gains and losses, losses due to wash sales, QEF income and capital gains and consent fees. To the extent these differences are permanent, reclassifications are made to the appropriate capital accounts in the fiscal period that the differences arise. On the Statement of Assets and Liabilities, the following reclassifications were made:

	2016
Undistributed net investment income	\$ 1,716,202
Accumulated net realized gain/(loss)	(465,289)
Additional paid-in capital/(reduction)	(1,250,913)

The character of distributions made during the fiscal period from net investment income or net realized gains may differ from its ultimate characterization for federal income tax purposes. In addition, due to the timing of dividend distributions, the fiscal period in which amounts are distributed may differ from the fiscal period that the income or realized gains or losses were recorded by the Fund.

The character of distributions paid during the fiscal years ended October 31, 2016 and 2015 were as follows:

	2016	2015
Ordinary income	\$28,847,985	\$24,213,323
Capital gain		1,309,683
Return of capital	1,305,942	55,818

As of October 31, 2016, the components of accumulated earnings (deficit) on a tax basis were as follows:

	2016
Undistributed ordinary income	\$
Undistributed capital gains	
Accumulated capital and other losses	(38,460,925)
Other undistributed ordinary losses	
Net unrealized depreciation	(14,595,562)

At October 31, 2016, the Fund had capital loss carryovers as indicated below. The capital loss carryovers are available to offset future realized capital gains to the extent provided in the Code and regulations promulgated thereunder. Capital loss carryovers may be limited under IRS section 382.

No Expiration Short-Term	No Expiration Long-Term
3,062,448	35,398,477

During the year ended October 31, 2016, the Fund did not utilize capital loss carryforwards.

The FASB, Accounting Standards Codification 740, Income Taxes (ASC 740), provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. The Fund has evaluated the implications of ASC 740 for all open tax years, and has determined there is no impact to the Fund's financial

statements as of the year ended October 31, 2016. The Fund's federal and state income returns for which the applicable statutes of limitations have not expired (2013, 2014, 2015) remain subject to examination by the Internal Revenue Service and states department of revenue.

All penalties and interest associated with income taxes, if any, are included in other expenses in the Statement of Operations. There were no penalties and interest incurred by the Fund for the current fiscal year.

Recently Issued Accounting Pronouncements

On October 13, 2016 the SEC amended existing rules intended to modernize reporting and disclosure of information. These amendments relate to Regulation S-X which sets forth the form and content of financial statements. At this time, management is evaluating the implications of adopting these amendments and their potential impact on the financial statements and accompanying notes.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "*Interest-Imputation of Interest*" (Subtopic 835-30), which provides guidance simplifying the presentation of debt issuance costs. The amendments require that debt issuance costs related to recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the new guidance. In addition, in August 2015, the FASB issued ASU No. 2015-15, "*Interest-Imputation of Interest*" (Subtopic 835-30). The additional guidance reiterates that the SEC would not object to an entity deferring and presenting debt issuance costs related to a line of credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings. The amendments are effective for annual reporting periods, including interim periods within those reporting period beginning after December 15, 2015, and early adoption is permitted. The guidance is to be applied on a retrospective basis and accounted for a change in accounting principle.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers* (Topic 606)." The guidance in Topic 606 supersedes the revenue recognition requirement in Topic 605 "Revenue Recognition." Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU No. 2016-08, "*Revenue*

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Financial Statements *(continued)*

October 31, 2016

from Contracts with Customers (Topic 606): Principal versus Agent Considerations," which clarifies the guidance in ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," an update on identifying performance obligations and accounting for licenses of intellectual property. Additionally, in May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which includes amendments for enhanced clarification of the guidance. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within the reporting period. The amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. While management is still assessing the potential impact of this update, it is not expected to be material to the Fund's financial statements.

(3) Investments

Fair Value Measurements

The Fund follows the provisions of Fair Value Measurements and Disclosures under U.S. GAAP, which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. The hierarchal disclosure framework establishes a three-tier hierarchy to maximize the use of observable data and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 Valuations based on quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access
- Level 2 Valuations based on quoted prices in markets that are not active or which all significant inputs are observable either directly or indirectly (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement (including a single broker quote or the Fund's own assumptions in determining the fair value of investments)

The fair value of the Fund's investments are primarily estimated based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs. The Fund's custodian obtains prices from independent pricing services based on an authorized pricing matrix as approved by the Fund's board of directors. The Adviser has

internal controls in place that support its reliance on information received from third-party pricing sources. For any security, if market or dealer quotations are not readily available, or if the Adviser determines that a quotation of a security does not represent a fair value, then the security is valued at a fair value as determined in good faith by the Adviser and will be classified as Level 3. In such instances, the Adviser will use valuation techniques consistent with the market or income approach to measure fair value and will give consideration to all factors which might reasonably affect the fair value. The Adviser is responsible for all inputs and assumptions related to the pricing of securities. As part of its internal controls, the Adviser obtains, reviews and tests information to corroborate prices received from third-party pricing sources. The main inputs into the Adviser's valuation model for these Level 3 securities include earnings multiples (based on the historical earnings of the issuer) and discounted cash flows. The Adviser may also consider original transaction price, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments as well as other liquidity, credit and market risk factors. Models will be adjusted as deemed necessary by the Adviser.

Bank loans and corporate debts: The fair value of bank loans and corporate debt is estimated based on quoted market prices, forward foreign exchange rates, dealer quotations or alternative pricing sources supported by observable inputs and are generally classified within Level 2 or 3. The Adviser obtains prices from independent pricing services which generally utilize broker quotes and may use various other pricing techniques which take into account appropriate factors

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Financial Statements (continued)

October 31, 2016

such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data. If the pricing services are only able to obtain a single broker quote or utilize a pricing model the securities will be classified as Level 3. If the pricing services are unable to provide prices, the Adviser will attempt to obtain one or more broker quotes directly from a dealer and price such securities at the last bid price obtained; such securities are classified as Level 3.

Collateralized loan obligations: The fair value of CLOs is estimated based on various valuation models of third-party pricing services as well as internal models. The valuation models generally utilize discounted cash flows and take into consideration prepayment and loss assumptions, based on historical experience and projected performance, economic factors, the characteristics and condition of the underlying collateral, comparable yields for similar securities and recent trading activity. These securities are classified as Level 3.

The following is a summary of the inputs used as of October 31, 2016, in valuing the Fund's investments carried at fair value:

	Level 1 Quoted Prices (\$)	Level 2 Other Significant Observable Inputs (\$)	Level 3 Significant Unobservable Inputs (\$)	Total (\$)
Floating Rate Term Loans		167,510,120	16,689,470	184,199,590
Corporate Bonds		238,686,738	3,418,626	242,105,364
Collateralized Loan Obligations/ Collateralized Debt Obligations			139,112,685	139,112,685
Common Stock	2,618,045		4,722,098	7,340,143
Total Investments	2,618,045	406,196,858	163,942,879	572,757,782

The following is a reconciliation of the Fund's investments in which significant unobservable inputs (Level 3) were used in determining fair value.

For the year ended October 31, 2016:

Floating Rate Term Loans (\$)	Corporate Bonds (\$)	Collateralized Loan Obligations/ Collateralized Debt Obligations	Common Stock (\$)	Total (\$)
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(\$)

Balance as of				
10/31/15	18,371,397	115,761,300		134,132,697
Purchases ^(a)	10,179,677	47,066,030	13,937,812	71,183,519
Sales ^(b)	(10,561,474)	(27,975,968)	(550,664)	