

Ares Dynamic Credit Allocation Fund, Inc.  
Form N-Q  
September 29, 2016

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

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

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)

Michael D. Weiner

Daniel J. Hall

2000 Avenue of the Stars

12th Floor

Los Angeles, California 90067  
(Name and address of agent for service)

Registrant's telephone number, including area code: (310) 201-4200

Date of fiscal year end: October 31

Date of reporting period: July 31, 2016

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**ITEM 1. SCHEDULE OF INVESTMENTS.**

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments**

July 31, 2016 (Unaudited)

|   | Principal Amount | Value (a)    |
|---|------------------|--------------|
| <b>Floating Rate Term Loans 42.0% (b)</b>   |                  |              |
| <b>Aerospace and Defense 2.5%</b>   |                  |              |
| Doncasters U.S., LLC, Term Loan 2nd Lien, 9.50%, 10/09/2020                           | \$ 1,500,000     | \$ 1,398,750 |
| Engility Corporation, 2nd Lien Term Loan, 12.00%, 05/21/2021 (c)                      | 3,034,000        | 3,098,472    |
| Square Holding Germany GmbH, Term Loan B (Denmark), L+ 5.00%, 05/31/2023 (c)          | 2,000,000        | 2,254,079    |
| TransDigm, Inc., Delayed Draw Tranche F Term Loan, 3.75%, 06/09/2023                  | \$ 1,326,316     | 1,318,212    |
| TransDigm, Inc., Tranche F Term Loan, 3.75%, 06/09/2023                               | 1,473,684        | 1,464,680    |
|   |                  | 9,534,193    |
| <b>Automobile 0.4%</b>  |                  |              |
| KAR Auction Services, Inc., Tranche B-3 Term Loan, 4.25%, 03/09/2023                  | 1,346,625        | 1,357,290    |
| <b>Banking, Finance, Insurance &amp; Real Estate 0.8%</b>                             |                  |              |
| Asurion, LLC, 2nd Lien Term Loan, 8.50%, 03/03/2021                                   | 3,000,000        | 2,970,630    |
| <b>Beverage, Food &amp; Tobacco 1.0%</b>  |                  |              |
| Albertsons, LLC, 2016-1 Term B-4 Loan, 4.50%, 08/25/2021                              | 3,822,934        | 3,840,443    |
| <b>Broadcasting &amp; Entertainment 1.4%</b>  |                  |              |
| Cumulus Media Holdings, Inc., Term Loan, 4.25%, 12/23/2020                            | 3,600,000        | 2,549,268    |
| Intelsat Jackson Holdings S.A., Tranche B-2 Term Loan (Luxembourg), 3.75%, 06/30/2019 | 3,000,000        | 2,840,640    |
|   |                  | 5,389,908    |
| <b>Buildings &amp; Real Estate 1.0%</b>   |                  |              |
| Jeld-Wen, Inc., Term B-1 Loan, 4.75%, 07/01/2022                                      | 3,970,000        | 3,984,888    |
| <b>Business Services 5.8%</b>   |                  |              |
| Cypress Semiconductor Corporation, 2016 Term Loan, 6.50%, 07/05/2021                  | 2,500,000        | 2,518,750    |
| Language Line, LLC, Initial Term Loan 1st Lien, 6.50%, 07/07/2021                     | 3,711,574        | 3,708,493    |
| Micron Technology, Inc., Term Loan, 6.64%, 04/26/2022                                 | 1,750,000        | 1,767,062    |
| Solera, LLC, USD Term Loan, 5.75%, 03/03/2023   | 1,496,250        | 1,507,472    |
| Syncreon Global Finance (US), Inc., Term Loan, 5.25%, 10/28/2020                      | 3,978,975        | 3,382,129    |
| Travelport Finance (Luxembourg) Sarl, Term B Loan (Luxembourg), 5.00%, 09/02/2021     | 5,969,454        | 5,975,423    |
| VWR Funding, Inc., Tranche B Term Loan, 4.00%, 01/15/2022                             | 2,985,000        | 3,351,699    |
|   |                  | 22,211,028   |
| <b>Chemicals, Plastics &amp; Rubber 2.8%</b>  |                  |              |
| Allnex Sarl, Tranche B-1 Term Loan (Luxembourg), L+ 4.25%, 04/15/2023 (c)             | 392,266          | 441,551      |
| HII Holding Corporation, Term Loan 2nd Lien, 9.75%, 12/21/2020                        | \$ 1,500,000     | 1,470,000    |
| Ineos Finance PLC, 2022 EUR Term Loan, (Great Britain), 4.25%, 03/31/2022             | 2,000,000        | 2,241,491    |
| Inovyn Finance PLC, Tranche B EUR Term Loan (Great Britain), 6.25%, 05/15/2021        | 1,575,000        | 1,772,763    |
| Kraton Polymers, LLC, Initial Term Loan, L+ 5.00%, 01/06/2022 (c)                     | \$ 3,500,000     | 3,478,125    |
| PQ Corporation, Tranche B-1 Term Loan, 5.75%, 11/04/2022                              | 1,246,898        | 1,256,773    |
|   |                  | 10,660,703   |
| <b>Consumer Services 0.4%</b>   |                  |              |
| Weight Watchers International, Inc., Initial Tranche B-2 Term Loan, 4.00%, 04/02/2020 | 1,989,717        | 1,501,122    |
| <b>Diversified &amp; Conglomerate Manufacturing 1.3%</b>                              |                  |              |
| Auris Luxembourg III Sarl, Term Loan B-4, (Luxembourg), 4.25%, 01/17/2022             | 2,984,925        | 2,992,387    |
| NBTY, Inc., USD Term B Loan, 5.00%, 05/05/2023  | 2,180,000        | 2,169,100    |
| Revlon Consumer Products Corporation, Bridge Loan, L+ 5.75%, 07/15/2024 (c)(d)(e)     | 2,000,000        |              |

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|  |           |           |
|--|-----------|-----------|
|  |           | 5,161,487 |
| <b>Electric Utilities 0.7%</b>   |           |           |
| Texas Competitive Electric Holdings Company, LLC, Term Loan B, L+ 4.00%,<br>07/07/2023 (c)         | 2,002,053 | 2,005,397 |
| Texas Competitive Electric Holdings Company, LLC, Term Loan C, L+ 4.00%,<br>07/27/2023 (c)         | 456,609   | 457,371   |
|  |           | 2,462,768 |
| <b>Electronics 3.5%</b>  |           |           |
| Avago Technologies Cayman Finance, Ltd., Term B-1 Loan USD, (Cayman Islands),<br>4.25%, 02/01/2023 | 1,812,308 | 1,812,018 |

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|  | Principal Amount | Value (a)    |
|--|------------------|--------------|
| <b>Floating Rate Term Loans (b) (continued)</b>                                      |                  |              |
| <b>Electronics (continued)</b>   |                  |              |
| Dell International, LLC, USD Term Loan, L+ 3.25%, 06/02/2022 (c)                     | \$ 2,180,328     | \$ 2,180,829 |
| Diebold, Inc., USD Term B Loan, 5.25%, 11/06/2023                                    | 1,790,000        | 1,786,277    |
| ON Semiconductor Corporation, Term Loan, 5.25%, 03/31/2023                           | 3,080,000        | 3,114,650    |
| Smart Technologies ULC, Term B Loan, (Canada), 10.50%, 01/31/2018                    | 1,171,875        | 1,171,875    |
| Veritas US, Inc., USD Term B-1 Loan, 6.63%, 01/27/2023                               | 1,162,088        | 1,081,903    |
| Western Digital Corporation, USD Term B Loan, 6.25%, 04/29/2023                      | 2,315,000        | 2,336,229    |
|  |                  | 13,483,781   |
| <b>Healthcare, Education &amp; Childcare 2.8%</b>                                    |                  |              |
| Acadia Healthcare Company, Inc., Tranche B-2 Term Loan, 4.50%, 02/16/2023            | 1,490,006        | 1,493,731    |
| Envision Healthcare Corporation, Tranche B-2 Term Loan, 4.50%, 10/28/2022            | 1,988,753        | 1,994,719    |
| Financiere Verdi I S.A.S, Term Loan B (France), 4.74%, 07/21/2023                    | 1,615,385        | 1,824,738    |
| Kinetic Concepts, Inc., USD Term F Loan, 5.00%, 11/04/2020                           | \$ 1,492,433     | 1,493,672    |
| MPH Acquisition Holdings, LLC, Initial Term Loan, 5.00%, 06/07/2023                  | 1,742,716        | 1,760,143    |
| Team Health, Inc., Tranche B Term Loan, 3.75%, 11/23/2022                            | 1,995,000        | 1,999,988    |
|  |                  | 10,566,991   |
| <b>Hotels, Motels, Inns &amp; Gaming 0.7%</b>  |                  |              |
| Mohegan Tribal Gaming Authority, Term Loan B, 5.50%, 06/15/2018                      | 1,496,052        | 1,493,060    |
| Station Casinos, LLC, Term Loan B, 3.75%, 06/08/2023                                 | 1,300,000        | 1,300,403    |
|  |                  | 2,793,463    |
| <b>Leisure, Amusement &amp; Entertainment 1.6%</b>                                   |                  |              |
| Delta 2 (LUX) Sarl, Term Loan 2nd Lien, (Luxembourg), 7.75%, 07/29/2022              | 1,000,000        | 980,000      |
| Delta 2 (LUX) Sarl, Term Loan B-3,(Luxembourg), 4.75%, 07/30/2021                    | 2,000,000        | 1,976,260    |
| Equinox Holdings, Inc., 2nd Lien Term Loan, 9.75%, 07/31/2020                        | 1,000,000        | 995,310      |
| Equinox Holdings, Inc., Initial Term Loan, 5.00%, 01/31/2020                         | 1,989,847        | 1,994,822    |
|  |                  | 5,946,392    |
| <b>Mining, Steel, Non-Precious Metals 0.2%</b>                                       |                  |              |
| Freeport McMoran Copper and Gold, Inc., Term Loan A, 3.25%, 05/31/2018               | 599,732          | 592,235      |
| <b>Oil &amp; Gas 1.7%</b>  |                  |              |
| Energy and Exploration Partners, LLC, 2nd Lien Term Loan, 5.00%, 05/13/2022 (d)      | 156,403          | 156,403      |
| Energy and Exploration Partners, LLC, Tranche B Term Loan, 13.00%, 11/12/2021 (d)(e) | 388,433          | 280,535      |
| EP Energy LLC, Tranche B-2 Loan, 4.50%, 04/30/2019 (d)                               | 1,382,500        | 1,195,862    |
| Templar Energy, LLC, Incremental Term Loans 2nd Lien, 8.50%, 11/25/2020 (f)          | 5,995,251        | 1,393,896    |
| Western Refining, Inc., 2016 Incremental Term Loan, 5.50%, 06/23/2023                | 3,725,000        | 3,614,814    |
|  |                  | 6,641,510    |
| <b>Personal Transportation 1.0%</b>  |                  |              |
| Air Medical Group Holdings, Inc., Initial Term Loan, 4.25%, 04/28/2022               | 3,960,000        | 3,890,700    |
| <b>Printing &amp; Publishing 1.5%</b>  |                  |              |
| Dex Media, Inc., Term Loan, 11.00%, 07/29/2021                                       | 1,440,053        | 1,364,450    |
| F&W Media, Inc., Initial Term Loan, 10.75%, 06/30/2019                               | 2,731,799        | 2,185,439    |
| Lee Enterprises, Inc., Term Loan, 7.25%, 03/31/2019                                  | 626,388          | 620,907      |
| Tribune Publishing Company, Initial Term Loans, 5.75%, 08/04/2021                    | 1,460,000        | 1,436,275    |
|  |                  | 5,607,071    |
| <b>Retail Stores 7.5%</b>  |                  |              |
| GOBP Holdings, Inc., 1st Lien Term Loan, 5.00%, 10/21/2021                           | 3,231,499        | 3,174,948    |
| GOBP Holdings, Inc., 2nd Lien Term Loan, 9.25%, 10/21/2022                           | 1,250,000        | 1,228,125    |
| Harbor Freight Tools USA, Inc., Initial Loans (TL), 4.75%, 07/26/2019                | 3,702,233        | 3,716,116    |
| JC Penney Corporation, Inc., Initial Loan, 5.25%, 06/23/2023                         | 2,500,000        | 2,502,075    |
| Mattress Holding Corporation, 2016 Incremental Loan, 6.25%, 10/20/2021               | 2,438,628        | 2,420,338    |
| Neiman Marcus Group, Inc., Term Loan 1, 4.25%, 10/25/2020                            | 2,984,694        | 2,810,418    |

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|   | Principal Amount | Value (a)          |
|---|------------------|--------------------|
| <b>Floating Rate Term Loans (b) (continued)</b>   |                  |                    |
| <b>Retail Stores (continued)</b>  |                  |                    |
| Petco Animal Supplies, Inc., Tranche B-1 Term Loan, 5.00%, 01/26/2023                   | \$ 2,487,500     | \$ 2,502,525       |
| Petco Animal Supplies, Inc., Tranche B-2 Term Loan, 5.00%, 01/26/2023                   | 99,500           | 99,984             |
| Rite Aid Corporation, 2nd Priority Tranche 1 Term Loans, 5.75%, 08/21/2020              | 4,170,000        | 4,180,425          |
| Rite Aid Corporation, Tranche 2 Term Loan, 4.88%, 06/21/2021                            | 3,575,000        | 3,580,362          |
| True Religion Apparel, Inc., Initial Term Loan, 5.88%, 07/30/2019                       | 4,342,500        | 1,831,102          |
| True Religion Apparel, Inc., Initial Term Loan 2nd Lien, 11.00%, 01/30/2020             | 1,369,565        | 547,826            |
|   |                  | 28,594,244         |
| <b>Technology 0.8%</b>  |                  |                    |
| Allflex Holdings III, Inc., (U.S.), Initial Term Loan 2nd Lien, 8.00%, 07/19/2021       | 3,000,000        | 3,000,000          |
| <b>Telecommunications 1.0%</b>  |                  |                    |
| Frontier Communications Corporation, Initial Loan, 3.00%, 03/31/2021                    | 987,500          | 941,828            |
| Windstream Services, LLC, Tranche B-6 Term Loan, 5.75%, 03/29/2021                      | 2,992,500        | 3,012,131          |
|   |                  | 3,953,959          |
| <b>Utilities 1.7%</b>   |                  |                    |
| Alinta Energy Finance Pty, Ltd., Delayed Draw Term Loan, (Australia), 6.38%, 08/13/2018 | 409,831          | 405,733            |
| Alinta Energy Finance Pty, Ltd., Term B Loan, (Australia), 6.38%, 08/13/2019            | 6,175,197        | 6,113,445          |
|   |                  | 6,519,178          |
| <b>Total Floating Rate Term Loans (Cost: \$169,284,250)</b>                             |                  | <b>160,663,984</b> |
| <b>Corporate Bonds 65.9%</b>  |                  |                    |
| <b>Aerospace and Defense 0.7%</b>   |                  |                    |
| Leidos, Inc., 7.13%, 07/01/2032   | 2,500,000        | 2,507,375          |
| <b>Banking, Finance, Insurance &amp; Real Estate 3.0%</b>                               |                  |                    |
| Builders FirstSource, Inc., 144A, 10.75%, 08/15/2023                                    | 4,250,000        | 4,717,500          |
| Headwaters, Inc., 7.25%, 01/15/2019   | 5,000,000        | 5,150,000          |
| MSCI, Inc., 144A, 5.75%, 08/15/2025   | 1,364,000        | 1,485,669          |
|   |                  | 11,353,169         |
| <b>Beverage, Food &amp; Tobacco 0.8%</b>  |                  |                    |
| Albertsons Cos, LLC, 144A, 6.63%, 06/15/2024  | 610,000          | 648,125            |
| New Red Finance, Inc., 144A, (Canada), 4.63%, 01/15/2022                                | 2,500,000        | 2,575,000          |
|   |                  | 3,223,125          |
| <b>Broadcasting &amp; Entertainment 8.7%</b>  |                  |                    |
| Belo Corporation, 7.25%, 09/15/2027   | 3,000,000        | 3,112,500          |
| DigitalGlobe, Inc., 144A, 5.25%, 02/01/2021   | 1,500,000        | 1,451,250          |
| Lamar Media Corporation, 5.38%, 01/15/2024  | 2,000,000        | 2,100,000          |
| Lamar Media Corporation, 144A, 5.75%, 02/01/2026  | 700,000          | 750,750            |
| LIN Television Corporation, 6.38%, 01/15/2021   | 895,000          | 935,275            |
| Nexstar Broadcasting, Inc., 6.88%, 11/15/2020   | 2,875,000        | 3,011,562          |
| Nexstar Broadcasting, Inc., 144A, 6.13%, 02/15/2022                                     | 1,550,000        | 1,594,563          |
| Numericable-SFR SA, 144A, (France), 6.25%, 05/15/2024                                   | 1,000,000        | 959,375            |
| Numericable-SFR SA, 144A, (France), 7.38%, 05/01/2026                                   | 3,500,000        | 3,495,625          |
| Sinclair Television Group, Inc., 6.13%, 10/01/2022                                      | 2,000,000        | 2,100,000          |
| Sinclair Television Group, Inc., 144A, 5.63%, 08/01/2024                                | 3,350,000        | 3,458,875          |
| Sinclair Television Group, Inc., 144A, 5.88%, 03/15/2026                                | 360,000          | 378,000            |
| Sirius XM Radio, Inc., 144A, 5.38%, 04/15/2025  | 3,000,000        | 3,081,570          |
| TEGNA, Inc., 6.38%, 10/15/2023  | 1,500,000        | 1,612,500          |
| Tribune Media Co, 5.88%, 07/15/2022   | 3,000,000        | 3,060,000          |
| Univision Communications, Inc., 144A, 8.50%, 05/15/2021                                 | 1,963,000        | 2,060,422          |
|   |                  | 33,162,267         |

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|  | Principal Amount | Value (a)    |
|--|------------------|--------------|
| <b>Corporate Bonds (continued)</b>   |                  |              |
| <b>Business Equipment &amp; Services 2.1%</b>                              |                  |              |
| Ceridian HCM Holding, Inc., 144A, 11.00%, 03/15/2021                       | \$ 1,000,000     | \$ 1,010,000 |
| Nielsen Finance, LLC, 144A, 5.00%, 04/15/2022                              | 1,000,000        | 1,031,250    |
| TMF Group Holding B.V., 144A, (Netherlands), 5.12%, 12/01/2018 (g)         | 1,500,000        | 1,688,999    |
| TMF Group Holding B.V., 144A, (Netherlands), 9.88%, 12/01/2019             | 3,750,000        | 4,489,969    |
|  |                  | 8,220,218    |
| <b>Cable &amp; Satellite TV 7.3%</b>                                       |                  |              |
| Altice Financing S.A., 144A, (Luxembourg), 6.63%, 02/15/2023               | \$ 1,000,000     | 1,001,880    |
| Altice Financing S.A., 144A, (Luxembourg), 7.50%, 05/15/2026               | 2,000,000        | 2,020,000    |
| Altice Financing S.A., 144A, (Luxembourg), 9.88%, 12/15/2020               | 2,500,000        | 2,675,000    |
| Cablevision Systems Corporation, 8.63%, 09/15/2017                         | 3,119,000        | 3,313,937    |
| CSC Holdings, LLC, 8.63%, 02/15/2019                                       | 2,000,000        | 2,228,750    |
| Midcontinent Communications, 144A, 6.88%, 08/15/2023                       | 1,750,000        | 1,828,750    |
| UPCB Finance V, Ltd., 144A, (Netherlands), 7.25%, 11/15/2021               | 3,780,000        | 3,969,000    |
| Virgin Media Secured Finance PLC, 144A, (Great Britain), 5.25%, 01/15/2026 | 3,500,000        | 3,491,250    |
| WaveDivision Escrow, LLC, 144A, 8.13%, 09/01/2020                          | 1,789,000        | 1,860,560    |
| WideOpenWest Finance, LLC, 10.25%, 07/15/2019                              | 5,327,000        | 5,546,739    |
|  |                  | 27,935,866   |
| <b>Cargo Transportation 0.6%</b>   |                  |              |
| XPO Logistics, Inc., 144A, 7.88%, 09/01/2019                               | 2,252,000        | 2,336,450    |
| <b>Chemicals, Plastics &amp; Rubber 1.4%</b>                               |                  |              |
| GCP Applied Technologies, Inc., 144A, 9.50%, 02/01/2023                    | 2,000,000        | 2,260,000    |
| Kraton Polymers, LLC, 144A, 10.50%, 04/15/2023                             | 1,000,000        | 1,090,000    |
| PQ Corporation, 144A, 6.75%, 11/15/2022                                    | 2,000,000        | 2,103,760    |
|  |                  | 5,453,760    |
| <b>Consumer Products 0.9%</b>  |                  |              |
| Hanesbrands, Inc., 144A, 4.88%, 05/15/2026                                 | 1,000,000        | 1,022,500    |
| NBTY, Inc., 144A, 7.63%, 05/15/2021  | 2,500,000        | 2,550,000    |
|  |                  | 3,572,500    |
| <b>Containers, Packaging &amp; Glass 1.1%</b>                              |                  |              |
| Crown Americas, LLC, 7.38%, 12/15/2026                                     | 2,350,000        | 2,614,375    |
| Reynolds Group Issuer, Inc., 9.88%, 08/15/2019                             | 662,000          | 680,205      |
| Reynolds Group Issuer, Inc., 144A, 7.00%, 07/15/2024                       | 695,000          | 734,528      |
|  |                  | 4,029,108    |
| <b>Diversified &amp; Conglomerate Services 1.0%</b>                        |                  |              |
| Ashtead Capital, Inc., 144A, 6.50%, 07/15/2022                             | 2,000,000        | 2,110,000    |
| United Rentals North America, Inc., 5.88%, 09/15/2026                      | 1,750,000        | 1,817,813    |
|  |                  | 3,927,813    |
| <b>Electronics 1.3%</b>  |                  |              |
| Freescale Semiconductor, Inc., 144A, 6.00%, 01/15/2022                     | 1,000,000        | 1,056,000    |
| NeuStar, Inc., 4.50%, 01/15/2023   | 1,500,000        | 1,325,625    |
| Syniverse Holdings, Inc., 9.13%, 01/15/2019                                | 5,500,000        | 2,743,125    |
|  |                  | 5,124,750    |
| <b>Healthcare, Education &amp; Childcare 2.1%</b>                          |                  |              |
| HCA, Inc., 5.25%, 04/15/2025   | 2,500,000        | 2,667,187    |
| HCA, Inc., 8.00%, 10/01/2018   | 1,500,000        | 1,676,250    |
| Kinetic Concepts, Inc., 10.50%, 11/01/2018                                 | 1,000,000        | 1,021,250    |
| Kinetic Concepts, Inc., 144A, 7.88%, 02/15/2021                            | 1,000,000        | 1,078,130    |

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|  | Principal Amount | Value (a)    |
|--|------------------|--------------|
| <b>Corporate Bonds (continued)</b>                                       |                  |              |
| <b>Healthcare, Education &amp; Childcare (continued)</b>                 |                  |              |
| Quorum Health Corporation, 144A, 11.63%, 04/15/2023                      | \$ 1,500,000     | \$ 1,522,500 |
|  |                  | 7,965,317    |
| <b>Hotels, Motels, Inns &amp; Gaming 5.5%</b>                            |                  |              |
| Gala Electric Casinos, PLC, 144A, (Great Britain), 11.50%, 06/01/2019    | £ 2,704,546      | 3,700,776    |
| Gala Group Finance, PLC, 144A, (Great Britain), 8.88%, 09/01/2018        | 293,920          | 398,879      |
| MGM Resorts International, 8.63%, 02/01/2019                             | \$ 1,000,000     | 1,132,500    |
| MGM Resorts International, 11.38%, 03/01/2018                            | 2,000,000        | 2,265,000    |
| Mohegan Tribal Gaming Authority, 9.75%, 09/01/2021                       | 2,000,000        | 2,152,500    |
| Mohegan Tribal Gaming Authority, 144A, 11.00%, 09/15/2018                | 2,228,000        | 2,233,570    |
| Peninsula Gaming, LLC, 144A, 8.38%, 02/15/2018                           | 6,000,000        | 6,030,000    |
| Pinnacle Entertainment, Inc., 144A, 5.63%, 05/01/2024                    | 1,200,000        | 1,224,744    |
| SNAI S.p.A., 144A, (Italy), 12.00%, 12/15/2018                           | 1,750,000        | 2,040,539    |
|  |                  | 21,178,508   |
| <b>Leisure, Amusement &amp; Entertainment 2.4%</b>                       |                  |              |
| ClubCorp Club Operations, Inc., 144A, 8.25%, 12/15/2023                  | \$ 2,500,000     | 2,606,250    |
| Live Nation Entertainment, Inc., 144A, 7.00%, 09/01/2020                 | 4,500,000        | 4,680,000    |
| LTF Merger Sub, Inc., 144A, 8.50%, 06/15/2023                            | 2,000,000        | 1,935,000    |
|  |                  | 9,221,250    |
| <b>Lending Services 1.6%</b>   |                  |              |
| AerCap Holdings, 8.75%, 03/15/2017                                       | 4,000,000        | 4,170,000    |
| AerCap Holdings, 8.88%, 09/01/2017                                       | 2,000,000        | 2,145,000    |
|  |                  | 6,315,000    |
| <b>Metals &amp; Minerals 5.1%</b>  |                  |              |
| Anglo American Capital PLC, 144A, (Great Britain), 9.38%, 04/08/2019     | 4,750,000        | 5,468,437    |
| First Quantum Minerals, Ltd., 144A, 7.00%, 02/15/2021                    | 1,000,000        | 892,300      |
| First Quantum Minerals, Ltd., 144A, 7.25%, 10/15/2019                    | 250,000          | 235,000      |
| First Quantum Minerals, Ltd., 144A, 7.25%, 05/15/2022                    | 107,000          | 94,428       |
| FMG Resources August 2006 Pty, Ltd., 144A (Australia), 9.75%, 03/01/2022 | 1,500,000        | 1,680,000    |
| Freeport-McMoran Copper & Gold, LLC, 6.50%, 11/15/2020                   | 1,500,000        | 1,485,000    |
| Freeport-McMoran Copper & Gold, LLC, 6.88%, 02/15/2023                   | 750,000          | 725,625      |
| HudBay Minerals, Inc., 9.50%, 10/01/2020                                 | 2,250,000        | 2,154,375    |
| Novelis, Inc., 8.38%, 12/15/2017   | 3,997,000        | 4,081,936    |
| Teck Resources, Ltd., 144A, 8.00%, 06/01/2021                            | 229,000          | 244,458      |
| Teck Resources, Ltd., 144A, 8.50%, 06/01/2024                            | 229,000          | 249,037      |
| United States Steel Corporation, 144A, 8.38%, 07/01/2021                 | 2,000,000        | 2,182,500    |
|  |                  | 19,493,096   |
| <b>Oil &amp; Gas 4.9%</b>  |                  |              |
| California Resources Corporation, 6.00%, 11/15/2024                      | 688,000          | 295,840      |
| California Resources Corporation, 144A, 8.00%, 12/15/2022                | 1,845,000        | 1,181,169    |
| Continental Resources, Inc., 7.38%, 10/01/2020                           | 1,655,000        | 1,696,375    |
| Denbury Resources, Inc., 144A, 9.00%, 05/15/2021                         | 1,375,000        | 1,375,000    |
| EP Energy, LLC, 9.38%, 05/01/2020 (d)                                    | 2,000,000        | 1,166,729    |
| Extraction Oil and Gas Holdings, LLC, 144A, 7.88%, 07/15/2021            | 2,285,000        | 2,285,000    |
| Ferrellgas Partners, L.P., 8.63%, 06/15/2020                             | 5,000,000        | 5,050,000    |
| Halcon Resources Corporation, 144A, 13.00%, 02/15/2022 (d)(f)            | 4,325,000        | 2,140,875    |
| Midstates Petroleum Company, Inc., 9.25%, 06/01/2021 (f)                 | 3,500,000        | 43,750       |
| Midstates Petroleum Company, Inc., 10.75%, 10/01/2020 (f)                | 2,000,000        | 25,000       |
| Quicksilver Resources, Inc., 11.00%, 07/01/2021 (d)(f)                   | 1,000,000        |              |
| Transocean, Inc., 144A, (Cayman Islands), 9.00%, 07/15/2023              | 2,000,000        | 1,875,000    |



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|  | Principal Amount | Value (a)          |
|--|------------------|--------------------|
| <b>Corporate Bonds (continued)</b>   |                  |                    |
| <b>Oil &amp; Gas (continued)</b>   |                  |                    |
| Whiting Petroleum Corporation, 5.00%, 03/15/2019                                 | \$ 1,750,000     | \$ 1,526,875       |
|  |                  | 18,661,613         |
| <b>Packaging 4.2%</b>  |                  |                    |
| Albea Beauty Holdings S.A., 144A, (Luxembourg), 8.38%, 11/01/2019                | 5,365,000        | 5,646,662          |
| Ardagh Packaging Finance PLC, 144A, (Ireland), 7.25%, 05/15/2024                 | 3,000,000        | 3,165,000          |
| GCL Holdings S.C.A., 144A, (Luxembourg), 9.38%, 04/15/2018                       | 5,500,000        | 6,327,041          |
| Guala Closures S.p.A., 144A, (Italy), 5.12%, 11/15/2019 (g)                      | 695,000          | 777,947            |
|  |                  | 15,916,650         |
| <b>Pipeline 2.2%</b>   |                  |                    |
| Gibson Energy, Inc., 144A, (Canada), 6.75%, 07/15/2021                           | \$ 2,816,000     | 2,837,120          |
| ONEOK, Inc., 7.50%, 09/01/2023   | 1,700,000        | 1,861,500          |
| Sabine Pass Liquefaction, LLC, 6.25%, 03/15/2022                                 | 1,500,000        | 1,569,375          |
| Targa Resources Partners, L.P., 144A, 6.75%, 03/15/2024                          | 2,250,000        | 2,345,625          |
|  |                  | 8,613,620          |
| <b>Printing &amp; Publishing 1.4%</b>  |                  |                    |
| EMI Music Publishing Group North America Holdings, Inc., 144A, 7.63%, 06/15/2024 | 1,400,000        | 1,501,500          |
| Lee Enterprises, Inc., 144A, 9.50%, 03/15/2022                                   | 3,775,000        | 3,812,750          |
|  |                  | 5,314,250          |
| <b>Retail Stores 3.6%</b>  |                  |                    |
| JC Penney Corporation, Inc., 8.13%, 10/01/2019                                   | 2,782,000        | 2,907,190          |
| L Brands, Inc., 6.75%, 07/01/2036  | 1,025,000        | 1,074,333          |
| L Brands, Inc., 8.50%, 06/15/2019  | 4,000,000        | 4,670,000          |
| Office Depot, Inc., 144A, 9.75%, 03/15/2019                                      | 3,750,000        | 3,928,125          |
| Rite Aid Corporation, 144A, 6.13%, 04/01/2023                                    | 1,000,000        | 1,061,250          |
|  |                  | 13,640,898         |
| <b>Technology 0.9%</b>   |                  |                    |
| Solera, LLC, 144A, 10.50%, 03/01/2024  | 1,500,000        | 1,619,070          |
| Western Digital Corporation, 144A, 10.50%, 04/01/2024                            | 1,500,000        | 1,689,375          |
|  |                  | 3,308,445          |
| <b>Telecommunications 1.8%</b>   |                  |                    |
| Cincinnati Bell, Inc., 8.38%, 10/15/2020   | 2,412,000        | 2,499,435          |
| Frontier Communications Corporation, 11.00%, 09/15/2025                          | 2,250,000        | 2,401,875          |
| Sprint Communications, Inc., 9.13%, 03/01/2017                                   | 2,000,000        | 2,060,000          |
|  |                  | 6,961,310          |
| <b>Utilities 1.3%</b>  |                  |                    |
| NRG Energy, Inc., 7.88%, 05/15/2021  | 614,000          | 637,025            |
| NRG Energy, Inc., 8.25%, 09/01/2020  | 4,000,000        | 4,129,100          |
| NRG Energy, Inc., 144A, 7.25%, 05/15/2026  | 375,000          | 384,844            |
|  |                  | 5,150,969          |
| <b>Total Corporate Bonds (Cost: \$265,484,208)</b>                               |                  | <b>252,587,327</b> |
| <b>Collateralized Loan Obligations/Collateralized Debt Obligations 36.7%</b>     |                  |                    |
| AIMCO CLO Series 2015-A, 144A, (Cayman Islands), 9.18%, 01/15/2028 (g)           | 2,000,000        | 1,637,984          |
| AMMC CLO XIII, Ltd., 144A, (Cayman Islands), 5.52%, 01/26/2026 (g)               | 3,000,000        | 2,715,465          |
| AMMC CLO XIV, Ltd., 144A, (Cayman Islands), 5.52%, 07/27/2026 (g)                | 1,500,000        | 1,257,230          |
| Apidos CLO XII, 144A, (Cayman Islands), 5.08%, 04/15/2025 (g)                    | 2,000,000        | 1,784,996          |
| Apidos CLO XVI, 144A, (Cayman Islands), 5.19%, 01/19/2025 (g)                    | 2,000,000        | 1,688,342          |
| Atlas Senior Loan Fund III, Ltd., 144A, (Cayman Islands), 08/18/2025             | 1,500,000        | 784,952            |
| Atlas Senior Loan Fund IV, Ltd., 144A, (Cayman Islands), 5.33%, 02/17/2026 (g)   | 2,000,000        | 1,663,850          |
| Atlas Senior Loan Fund VI, Ltd., 144A, (Cayman Islands), 5.88%, 10/15/2026 (g)   | 1,000,000        | 855,928            |

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|  | Principal Amount | Value (a)    |
|--|------------------|--------------|
| <b>Collateralized Loan Obligations/Collateralized Debt Obligations (continued)</b>               |                  |              |
| Atrium CLO VII, 144A (Cayman Islands), 11/16/2022  | \$ 1,600,000     | \$ 1,045,125 |
| Atrium XI, 144A, (Cayman Islands), 5.74%, 10/23/2025 (g)   | 5,590,000        | 4,871,981    |
| Babson CLO, Ltd., 2013-II, 144A, (Cayman Islands), 5.18%, 01/18/2025 (g)                         | 2,000,000        | 1,770,684    |
| Canyon Capital CLO 2015-1, Ltd., 144A, (Cayman Islands), 6.13%, 04/15/2027 (g)                   | 1,500,000        | 1,342,569    |
| Carlyle Global Market Strategies CLO 2013-4, Ltd., 144A, (Cayman Islands), 10/15/2025            | 1,259,000        | 715,658      |
| Carlyle Global Market Strategies CLO 2014-1, Ltd., 144A, (Cayman Islands), 5.08%, 04/17/2025 (g) | 5,000,000        | 4,221,995    |
| Carlyle Global Market Strategies CLO 2014-3, Ltd., 144A, (Cayman Islands), 07/27/2026            | 1,000,000        | 759,781      |
| Cedar Funding IV CLO, Ltd., 144A, (Cayman Islands), 10/23/2026                                   | 4,000,000        | 3,540,708    |
| Cent CLO XVIII, Ltd., 144A, (Cayman Islands), 5.31%, 07/23/2025 (g)                              | 3,000,000        | 2,604,564    |
| Cent CLO XXIII, Ltd., 144A, (Cayman Islands), 6.08%, 04/17/2026 (g)                              | 2,750,000        | 2,377,584    |
| Clear Creek CLO, Ltd., 144A, (Cayman Islands), 6.45%, 04/20/2027 (g)                             | 1,000,000        | 906,828      |
| Denali Capital CLO XI, Ltd. 2015-1A D, 144A, (Cayman Islands), 6.15%, 04/20/2027 (g)             | 1,000,000        | 869,012      |
| Denali Capital CLO XI, Ltd. 2015-1X D, 144A, (Cayman Islands), 6.15%, 04/20/2027 (g)             | 460,000          | 399,746      |
| Denali Capital CLO XII, Ltd., 144A, (Cayman Islands), 8.38%, 04/15/2028 (g)                      | 5,000,000        | 5,004,220    |
| Dorchester Park CLO, Ltd., 144A, (Ireland), 5.95%, 01/20/2027 (g)                                | 625,000          | 578,056      |
| Dorchester Park CLO, Ltd., 144A, (Ireland), 6.95%, 01/20/2027 (g)                                | 4,000,000        | 2,973,000    |
| Dryden XXV Senior Loan Fund, 144A, (Cayman Islands), 01/15/2025                                  | 250,000          | 119,135      |
| Dryden XXXVI Senior Loan Fund, 144A, (Cayman Islands), 5.83%, 11/09/2025 (g)                     | 4,370,000        | 3,854,663    |
| Dryden XXXVII Senior Loan Fund, 144A, (Cayman Islands), 6.08%, 04/15/2027 (g)                    | 1,250,000        | 1,108,871    |
| Dryden XXXVIII Senior Loan Fund, 144A, (Cayman Islands), 07/15/2027                              | 4,500,000        | 3,796,537    |
| Dryden XLII Senior Loan Fund, 144A (Cayman Islands), 8.00%, 07/15/2027 (g)                       | 1,500,000        | 1,489,536    |
| Emerson Park CLO, Ltd. 2013-1, 144A, (Cayman Islands), 07/15/2025                                | 450,000          | 211,492      |
| Flatiron CLO 2013-1, Ltd., 144A, (Cayman Islands), 5.58%, 01/17/2026 (g)                         | 1,750,000        | 1,588,909    |
| Galaxy CLO 2015-19, Ltd., 144A, (Cayman Islands), 5.81%, 01/24/2027 (g)                          | 800,000          | 695,582      |
| Galaxy XX CLO, Ltd., 144A, (Cayman Islands), 6.20%, 07/20/2027 (g)                               | 3,500,000        | 3,104,076    |
| Goldentree Loan Opportunities VI, Ltd., 144A, (Cayman Islands), 04/17/2022                       | 1,500,000        | 782,196      |
| Goldentree Loan Opportunities X, Ltd., 144A, (Cayman Islands), 5.90%, 07/20/2027 (g)             | 1,500,000        | 1,306,203    |
| Goldentree Loan Opportunities XI, Ltd., 144A, (Cayman Islands), 6.23%, 04/18/2027 (g)            | 1,000,000        | 896,380      |
| Greywolf CLO II, Ltd., 144A, (Cayman Islands), 5.38%, 04/15/2025 (g)                             | 1,500,000        | 1,368,074    |
| Halcyon Loan Advisors Funding 2013-1, Ltd., 144A, (Cayman Islands), 4.18%, 04/15/2025 (g)        | 4,000,000        | 3,403,140    |
| Halcyon Loan Advisors Funding 2015-1, Ltd., 144A, (Cayman Islands), 6.35%, 04/20/2027 (g)        | 750,000          | 584,336      |
| Halcyon Loan Advisors Funding 2015-3, Ltd., 144A, (Cayman Islands), 6.63%, 10/18/2027 (g)        | 2,500,000        | 2,027,213    |
| Jamestown CLO IV, Ltd., 144A, (Cayman Islands), 5.68%, 07/15/2026 (g)                            | 2,000,000        | 1,356,216    |
| Jamestown CLO VI, Ltd., 144A, (Cayman Islands), 5.39%, 02/20/2027 (g)                            | 900,000          | 734,503      |
| LCM XII, L.P., 144A, (Cayman Islands), 10/19/2022  | 1,000,000        | 575,268      |
| LCM XIII, L.P., 144A, (Cayman Islands), 01/19/2023   | 1,775,000        | 1,021,381    |
| LCM XV, L.P., 144A, (Cayman Islands), 08/25/2024   | 5,875,000        | 2,930,544    |
| Madison Park Funding IV, Ltd., 144A, (Cayman Islands), 03/22/2021                                | 3,700,000        | 4,726,225    |
| Madison Park Funding XII, Ltd., 144A, (Cayman Islands), 07/20/2026                               | 4,000,000        | 2,877,172    |
| Madison Park Funding XIII, Ltd., 144A, (Cayman Islands), 5.63%, 01/19/2025 (g)                   | 5,250,000        | 4,609,332    |
| Madison Park Funding XIV, Ltd., 144A, (Cayman Islands), 5.45%, 07/20/2026 (g)                    | 2,750,000        | 2,362,720    |
| Magnetite XIV, Ltd., 144A, (Cayman Islands), 7.13%, 07/18/2028 (g)                               | 4,000,000        | 3,127,792    |
| Mountain Hawk III CLO, Ltd., 144A, (Cayman Islands), 5.53%, 04/18/2025 (g)                       | 2,000,000        | 1,471,438    |
| Nautique Funding, Ltd., 144A, (Cayman Islands), 04/15/2020                                       | 1,300,000        | 550,585      |
| Northwoods Capital X, Ltd., 144A, (Cayman Islands), 5.24%, 11/04/2025 (g)                        | 2,000,000        | 1,676,000    |
| Northwoods Capital XI, Ltd., 144A, (Cayman Islands), 4.13%, 04/15/2025 (g)                       | 2,500,000        | 2,209,787    |
| Oaktree CLO, Ltd. 2015-1A, 144A, (Cayman Islands), 10/20/2027                                    | 4,000,000        | 2,794,288    |
| Octagon Investment Partners XVIII, Ltd., 144A, (Cayman Islands), 5.88%, 12/16/2024 (g)           | 2,600,000        | 2,408,910    |
| OHA Credit Partners VI, Ltd., 144A, (Cayman Islands), 4.93%, 05/15/2023 (g)                      | 750,000          | 691,281      |
| OHA Loan Funding 2013-1, Ltd., 144A, (Cayman Islands), 07/23/2025                                | 3,000,000        | 1,877,976    |
| OZLM Funding V, Ltd., 144A, (Cayman Islands), 5.43%, 01/17/2026 (g)                              | 2,900,000        | 2,631,869    |
| OZLM VII, Ltd., 144A, (Cayman Islands), 5.68%, 07/17/2026 (g)                                    | 2,750,000        | 2,377,015    |
| OZLM XI, Ltd., 144A, (Cayman Islands), 6.04%, 01/30/2027 (g)                                     | 2,000,000        | 1,767,922    |

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|   |           |           |
|---|-----------|-----------|
| OZLM XIV, Ltd., 144A, (Cayman Islands), 7.03%, 01/15/2029 (g)                         | 4,500,000 | 4,227,876 |
| Steele Creek CLO 2014-1, Ltd., 144A, (Cayman Islands), 4.05%, 08/21/2026 (g)          | 2,450,000 | 2,238,759 |
| THL Credit Wind River 2014-3 CLO, Ltd., 144A, (Cayman Islands), 7.35%, 01/22/2027 (g) | 1,000,000 | 742,694   |
| THL Credit Wind River 2015-2 CLO, Ltd., 144A, (Cayman Islands), 6.38%, 10/15/2027 (g) | 4,000,000 | 3,521,528 |
| THL Credit Wind River 2016-1 CLO, Ltd., 144A, (Cayman Islands), 07/15/2028 (g)        | 3,500,000 | 3,412,790 |

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|  | Principal Amount | Value (a)          |
|--|------------------|--------------------|
| <b>Collateralized Loan Obligations/Collateralized Debt Obligations (continued)</b>                 |                  |                    |
| TICP CLO III, Ltd., 144A, (Cayman Islands), 6.18%, 01/20/2027 (g)                                  | \$ 4,000,000     | \$ 3,166,964       |
| Venture XIII CLO, Ltd., 144A, (Cayman Islands), 5.96%, 06/10/2025 (g)                              | 1,500,000        | 1,392,501          |
| West CLO 2013-1, Ltd., 144A, (Cayman Islands), 11/07/2025  | 500,000          | 170,193            |
| West CLO 2013-1, Ltd., 144A, (Cayman Islands), 4.28%, 11/07/2025 (g)                               | 3,000,000        | 2,527,320          |
| WhiteHorse VII, Ltd., 144A, (Cayman Islands), 4.36%, 11/24/2025 (g)                                | 2,000,000        | 1,839,464          |
| <b>Total Collateralized Loan Obligations/Collateralized Debt Obligations (Cost: \$140,054,630)</b> |                  | <b>140,724,914</b> |

|  | Shares  |                      |
|--|---------|----------------------|
| <b>Common Stocks 0.4%</b>                              |         |                      |
| <b>Diversified &amp; Conglomerate Services 0.2%</b>    |         |                      |
| Affinion Group Holdings, Inc. (h)                      | 110,400 | 828,000              |
| <b>Oil &amp; Gas 0.1%</b>                              |         |                      |
| Energy and Exploration Partners, LLC (h)               | 402     | 223,110              |
| <b>Printing &amp; Publishing 0.1%</b>                  |         |                      |
| Dex Media, Inc. (h)                                    | 266,744 | 533,488              |
| <b>Total Common Stocks (Cost: \$6,008,773)</b>         |         | <b>1,584,598</b>     |
| <b>Total Investments - 145.0%</b>                      |         |                      |
| <b>(Cost: \$580,831,861)</b>                           | \$      | 555,560,823          |
| <b>Liabilities in Excess of Other Assets - (45.0%)</b> |         | <b>(172,495,530)</b> |
| <b>Net Assets - 100.0%</b>                             | \$      | <b>383,065,293</b>   |

**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 July 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) See Note 4 regarding defaulted securities.
- (g) Variable rate coupon rate shown as of July 31, 2016.
- (h) Non-income producing security.

As of July 31, 2016, the aggregate cost of securities for federal income tax purposes was \$579,843,935.

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

|                                    |                        |
|------------------------------------|------------------------|
| Gross unrealized appreciation      | \$ 12,838,068          |
| Gross unrealized depreciation      | (37,121,180)           |
| <b>Net unrealized depreciation</b> | <b>\$ (24,283,112)</b> |

**Abbreviations:**

144A

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

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CLO

Collateralized Loan Obligation

**Currencies:**

£  
\$

Euro Currency  
British Pounds  
U.S. Dollars

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

**Notes to Schedule of Investments**

**July 31, 2016 (Unaudited)**

**(1) Organization**

Ares Dynamic Credit Allocation Fund, Inc. ( "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 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, 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" ) serves as the investment adviser to the Fund. The Fund's common shares are listed on the New York Stock Exchange and trade under the ticker symbol "ARDC" .

***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 made primarily to companies whose debt is rated below investment grade; (ii) 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**

***Accounting Estimates***

The Fund is an investment company that follows the accounting and reporting guidance of Accounting Standards Codification Topic 946 applicable to investment companies. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( "U.S. GAAP" ) requires the Adviser to make 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***

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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 agreements ( 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 July 31, 2016, the fair value of the loans disclosed in the Schedule of Investments does not include unfunded loan commitments, which total \$2,107,898.

### *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.

### *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.

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

**Notes to Schedule of Investments (continued)**

**July 31, 2016 (Unaudited)**

***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 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 the portion of the results of operations resulting from the changes in foreign exchange rates on investments from the 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***



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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.

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

**Notes to Schedule of Investments (continued)**

**July 31, 2016 (Unaudited)**

**(3) Investments**

*Fair Value Measurements*

The Fund follows the provisions of Fair Value Measurements and Disclosures (Accounting Standards Codification Topic 820) 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 unadjusted 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

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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 fair value, then the security is valued at 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 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

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

**Notes to Schedule of Investments (continued)**

**July 31, 2016 (Unaudited)**

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 July 31, 2016, in valuing the Fund's investments carried at fair value:

|   | <b>Level 1 - Quoted<br/>Prices (\$)</b> | <b>Level 2 - Other<br/>Significant<br/>Observable Inputs<br/>(\$)</b> | <b>Level 3 - Significant<br/>Unobservable Inputs<br/>(\$)</b> | <b>Total (\$)</b> |
|---|---|---|---|-------------------|
| Floating Rate Term Loans  |   | 147,968,707   | 12,695,277  | 160,663,984       |
| Corporate Bonds   |   | 252,587,327   |   | 252,587,327       |
| Collateralized Loan Obligations/Collateralized Debt Obligations |   |   | 140,724,914   | 140,724,914       |
| Common Stock  |   |   | 1,584,598   | 1,584,598         |
| <b>Total Investments</b>  |   | 400,556,034   | 155,004,789   | 555,560,823       |

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 period ended July 31, 2016:

|  | <b>Floating Rate<br/>Term Loans (\$)</b> | <b>Collateralized<br/>Loan Obligations/<br/>Collateralized<br/>Debt Obligations<br/>(\$)</b> | <b>Common Stock<br/>(\$)</b> | <b>Total (\$)</b> |
|--|--|--|------------------------------|-------------------|
| <b>Balance as of 10/31/15</b>  | 18,371,397                               | 115,761,300  |                              | 134,132,697       |
| Purchases (a)  | 4,405,835                                | 49,032,580   | 6,008,773                    | 59,447,188        |
| Sales (b)  | (8,963,781)                              | (26,012,772)   |                              | (34,976,553)      |
| Realized gain/ (loss) and net change in unrealized appreciation/(depreciation)           | (1,039,686)                              | 1,294,029  | (4,424,175)                  | (4,169,832)       |
| Accrued discounts/(premiums)   | 25,210                                   | 649,777  |                              | 674,987           |
| Transfers in to Level 3  | 4,470,000                                |  |                              | 4,470,000         |
| Transfers out of Level 3   | (4,573,698)                              |  |                              | (4,573,698)       |
| <b>Balance as of 7/31/16</b>   | 12,695,277                               | 140,724,914  | 1,584,598                    | 155,004,789       |
| Net change in unrealized appreciation/(depreciation) from Investments held as of 7/31/16 | (604,507)                                | 4,845,616  | (4,424,175)                  | (183,066)         |



**Ares Dynamic Credit Allocation Fund, Inc.****Notes to Schedule of Investments (continued)****July 31, 2016 (Unaudited)**

Investments were transferred into and out of Level 3 and into and out of Level 2 during the period ended July 31, 2016 due to changes in the quantity and quality of information obtained to support the fair value of each investment as assessed by the Adviser.

(a) Purchases include PIK interest and securities received from restructure.

(b) Sales include principal redemptions.

The valuation techniques used by the Adviser to measure fair value as of July 31, 2016 maximized the use of observable inputs and minimized the use of unobservable inputs. The valuation techniques and significant amounts of unobservable inputs used in the valuation of the Fund's Level 3 securities are outlined in the table below.

|   | Fair Value<br>(\$) | Valuation Technique                             | Unobservable Inputs | Range |
|---|--------------------|---|---------------------|-------|
| <b>Assets</b>   |                    |   |                     |       |
| <b>Investments in securities</b>                              |                    |   |                     |       |
| Floating Rate Term Loans                                      | 12,695,277         | Broker quotes and/or 3rd party pricing services | N/A                 | N/A   |
| Collateralized Loan Obligation/Collateralized Debt Obligation | 140,724,914        | Broker quotes and/or 3rd party pricing services | N/A                 | N/A   |
| Common Stock  | 1,584,598          | Broker quotes and/or 3rd party pricing services | N/A                 | N/A   |
| <b>Total Level 3 Investments</b>                              | <b>155,004,789</b> |   |                     |       |

There were no transfers between Level 1 and 2 during the period. It is the Fund's policy to recognize transfers into and out of all levels at the end of the reporting period.

**(4) Defaulted Securities**

The Fund held defaulted securities and/or other securities for which the income has been deemed uncollectible. As of July 31, 2016, the aggregate value of those securities was \$3,603,521 representing 0.94% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest of receivable. The securities have been identified on the accompanying Schedule of Investments.



**ITEM 2. CONTROLS AND PROCEDURES.**

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective at a reasonable level of assurance based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this report as required by Rule 30a-3(b) under the 1940 Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended.

(b) There were no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

**ITEM 3. EXHIBITS.**

The following exhibits are attached to this Form N-Q:

| <b>EXHIBIT NO.</b> | <b>DESCRIPTION OF EXHIBIT</b>   |
|--------------------|---|
| 3 (a) (1)          | Certification of Principal Executive Officer pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 |
| 3 (a) (2)          | Certification of Principal Financial Officer pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant): Ares Dynamic Credit Allocation Fund, Inc.

By: /s/ Seth J. Brufsky  
Seth J. Brufsky  
Chief Executive Officer (principal executive officer)

Date: September 29, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Seth J. Brufsky  
Seth J. Brufsky  
Chief Executive Officer (principal executive officer)

Date: September 29, 2016

By: /s/ Penni F. Roll  
Penni F. Roll  
Chief Financial Officer (principal financial officer)

Date: September 29, 2016

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