Ares Dynamic Credit Allocation Fund, Inc.
Form N-CSR
January 02, 2015

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)

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(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: October 31, 2014

Item 1. Report to Stockholders.

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

Ares Multi-Strategy Credit Fund, Inc.
(NYSE: ARMF)

Annual Report

October 31, 2014

Ares Dynamic Credit Allocation Fund, Inc.
Ares Multi-Strategy Credit Fund, Inc.

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Letter to Shareholders

October 31, 2014 (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 a "fund") and the Ares Multi-Strategy Credit Fund, Inc. ("ARMF" or a "fund" and, collectively with ARDC, the "Funds"). We appreciate the trust and confidence that you have demonstrated in Ares through your investment in ARDC and ARMF.

Economic Conditions and Leveraged Finance Market Update

After relatively stable conditions within the capital markets throughout the first half of 2014 due to lower than anticipated interest rates, encouraging corporate earnings in the U.S., and a benign default environment, volatility returned in the third quarter of 2014 amid elevated geopolitical risks, declining commodity prices, and softer European economic data. Waning risk appetite and deteriorating investor sentiment weighed disproportionately on lower quality assets and cyclically sensitive industries through mid-October, but leveraged finance markets have since snapped back due to reports indicating improving U.S. economic growth and a continued accommodative stance taken by central banks globally. Therefore, market sentiment has improved recently and has been supported by improved technical conditions resulting from lower new issuance, retail inflows to bonds and abating outflows from loans. On a year-to-date basis ("YTD"), equities, as measured by the S&P 500, have outperformed credit returning 10.99% through October, compared to 2.73% and 4.79% for the Credit Suisse Leveraged Loan Index ("CSLLI") and the Merrill Lynch High Yield Master II Index ("H0A0"), respectively.

According to the advance estimate from the Bureau of Economic Analysis, the U.S. economy grew at a 3.5% annualized rate during the third quarter of 2014, beating consensus estimates as positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, and government spending were key drivers of the above trend growth. In addition, employers added 214,000 jobs in October, which was weaker than many economists predicted, but the Bureau of Labor Statistics also made significant positive revisions to its August and September payroll readings. As a result, October marked the ninth straight monthly gain of more than 200,000 jobs. This job creation dropped the unemployment rate from 5.9% to 5.8%, the lowest level since before the recession. While the acceleration in hiring has done little to boost wages for American workers, overall the report reflects steady economic growth. Importantly, corporate fundamentals in the U.S. remain strong as 467 of S&P 500 companies reported third quarter earnings with 59% surprising on sales (+4.0% year-over-year) and 79% on earnings per share (9.1% year-over-year). As widely anticipated, given the strength of recent labor market and other economic indicators, the Federal Reserve (the "Fed") concluded its bond buying program in October. Despite the end to the Fed's latest round of quantitative easing, muted wage growth and persistently low inflation figures suggest the Fed can keep monetary policy on its current track. As such, we continue to support the view held by many economists and market participants alike that the Fed will initiate the first interest rate increase in the mid-2015 timeframe.

Performance of European capital markets has mirrored that of their U.S. counterparts YTD, as the Credit Suisse Western European Leveraged Loan Index and the Merrill Lynch European High Yield Index have returned 2.26% and 4.88% through October, respectively. European markets have recently suffered broad-based losses on increased concerns that the European Central Bank's ("ECB") stimulus measures would not be enough to revive the Eurozone economy. Inflation in the Eurozone rose slightly in October with the flash inflation figure reported to be 0.4%, up from 0.3% in September; however, inflation continues to be persistently well below target. Activity continues to remain sluggish as the Eurozone's private sector grew less rapidly in October according to data from Markit monthly composite PMI. Responding to this weak domestic demand and slower growth for the global economy, European businesses cut jobs for the first time since November 2013, although the unemployment rate remained unchanged at 11.5% in September as compared to August. This dismal macroeconomic backdrop prompted the European Commission to announce in early November that it would cut its 2014 economic growth forecast to 0.8% from 1.2%. The current environment of low economic growth and low inflation prevalent in the Eurozone creates more incentive for the ECB to use more aggressive measures of monetary stimulus to reignite growth that has been lacking thus far. In early November, Mario Draghi, President of the ECB, reiterated the ECB's commitment to expanding the bank's balance sheet in order to provide more support for the flagging economy.

As it relates to the structured credit landscape, October proved to be an eventful month for collateralized loan obligations ("CLOs") both in terms of issuance and market developments. U.S. issuance totaled $11.1 billion for the month contributing to $104.6 billion YTD. Europe notched a respectable €1.8 billion, marking the third busiest month of the year (€11.9 billion YTD) according to S&P. This supply emerged despite persistent volatility in the global credit markets. Challenging arbitrage conditions in the U.S. remain, with AAAs in the 147-170 bps DM range versus European AAAs printing at 123-130 bps.[i] Furthermore, we saw a drop-off in CLO refinancing activity as pricing became uneconomic. With year-end rapidly

Ares Management Funds

Letter to Shareholders *(continued)*

October 31, 2014 (Unaudited)

approaching, research estimates were increased with current fiscal year-end 2014 market forecasts ranging $115-125 billion in the U.S. and €10-15 billion in Europe. Supply forecasts for 2015 reflect an anticipated decline year-over-year in the U.S. and a pickup in Europe $95-110 billion and €18 billion, respectively.[ii] Against this backdrop, the long-awaited risk retention rules were released in the U.S. on October 22nd. This spurred much debate and continues to remain the focal point for market participants as digestion of the rules' implications and alternative structures are discussed. Establishing a solution that allows managers to satisfy both U.S. and European risk retention requirements is the priority for market participants. In regards to the secondary CLO market, October marked the busiest month on record with over $5 billion out for bid against the mid-month macro volatility.[i] The bulk of the volume came at the AAA level due to U.S. investors rotating out of 2012 vintage deals into higher yielding new issue deals and European accounts continuing to view 1.0 vintage AAAs as offering the best relative value in the asset-backed security space. We also saw a large amount of equity offered on lists while prices were supported by rising loan valuations, many did not trade. Across the tranches of the CLO capital structure, levels in U.S. CLO 1.0s were a touch wider while 2.0s widened significantly. Increased tiering amongst managers continues to be a theme, especially in the lower rated tranches of 2.0 capital structures.[iii] Challenging new issue arbitrage conditions, especially given a firmer loan market, has caused several managers to postpone fourth-quarter deals, reducing new issue supply. As we head through December, we anticipate a retraction in spreads, especially for US single-A, triple-B and double-B tranches, which should help us end the year on a strong note. At current market levels, and given a constructive fundamental view of credit, we continue to remain firm in our view that CLOs continue to provide an attractive source of risk-adjusted returns on both a relative and absolute value perspective. For additional information about the instruments in which ARDC and ARMF invest, please refer to each Fund's respective prospectus and statement of additional information.

The downdraft and subsequent recovery of the credit markets during October has further highlighted the increased level of volatility prevalent in today's trading environment. As a proxy, the 10-Year Treasury yield began the month around 2.40%. In mid-October, at the height of the turmoil in capital markets, the 10-Year Treasury's yield tightened to 1.87%, before widening back out above 2.00% and closing the day just under 2.10%. This erratic trading marked the first time the 10-Year Treasury yields have been below 2.00% since June 2013. A stunning $924 billion of U.S. Treasury bonds traded that day, the highest daily total in more than 10 years. Option adjusted spreads on the high yield index, as measured by the H0A0, gapped out 61 bps to 508 bps over Treasuries at its widest from the start of the month; however, they ended October tightening 9 bps from where they began. While a confluence of factors helped facilitate these gyrations, the make-up of below investment grade credit investors, with an increasing proportion of retail players (i.e., exchange traded funds and retail oriented mutual funds), has exacerbated this volatility. This has translated into more significant moves in quoted asset prices (up and down, though these prices are not necessarily transacted upon) sometimes on little news or changes in fundamental data. As a result of the volatility experienced in October, discounted names have emerged, and as such, we believe the probability for further market dislocations should remain elevated, especially as the Fed's quantitative easing initiative ends and the debate over when to make the first interest rate hike takes center stage. We continue to believe credit fundamentals will largely remain strong, but believe additional value will be rewarded to selective credit pickers, avoiding the overly aggressive terms without requisite compensation and identifying credit deterioration in advance of a market move. We expect outperformance to be awarded to those managers who focus on credit selection and mistake avoidance and understand the potential impact of broader interest rate moves with thorough bottom-up analysis, a practice that we believe Ares does particularly well. Overall, we continue to view the non-investment grade credit markets as an attractive asset class for capital deployment given the overall healthy credit environment and potential for current income generation.

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. ARDC's investment objective is to provide an attractive level of total return, primarily through current income and, secondarily, through capital appreciation, by investing in a broad, dynamically-managed portfolio of below investment grade senior secured loans, high yield corporate bonds, and investment grade tranches of collateralized loan obligations. As of October 31, 2014, ARDC held approximately 46% of its Managed Assets in corporate bonds, more than 33% in senior loans, and just under 17% in structured credit, with the balance being in cash. As of October month-end, ARDC's investments included 132 issuers diversified across more than 30 distinct industries (based on Merrill Lynch industry classifications). The top five industry groups represented 44% of total holdings of ARDC while the top ten issuer holdings accounted for less than 15% of total portfolio holdings. ARDC has underperformed the CSLLI and the H0A0 for the YTD period ending October 31, 2014 on a Net Asset Value ("NAV") basis returning 1.79% versus 2.73% and 4.79% for the CSLLI and H0A0, respectively.

Ares Management Funds

Letter to Shareholders *(continued)*

October 31, 2014 (Unaudited)

Ares Multi-Strategy Credit Fund, Inc.

ARMF is a closed-end fund that trades on the New York Stock Exchange under the symbol "ARMF", and is externally managed by the Advisor. ARMF'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 primarily in a broad, dynamically managed portfolio of below investment grade senior secured loans, high yield corporate bonds, other similar fixed-income instruments, including derivatives, collateralized loan obligations, and other asset backed securities. As of October 31, 2014, ARMF held approximately 46% of its Managed Assets in corporate bonds, 31% in senior loans, just over 15% in CLO debt securities, 2.4% in CLO equity and the balance in cash. As of October month-end, ARMF's investments included 105 issuers diversified across more than 30 distinct industries (based on Merrill Lynch industry classifications). The top five industry groups represented approximately 48% of total holdings of ARMF while the top ten issuer holdings accounted for less than 16% of total portfolio holdings. ARMF has performed in line with the CSLLI and has underperformed the H0A0 for the YTD period ending October 31, 2014 on a Net Asset Value ("NAV") basis returning 2.48% versus 2.73% and 4.79% for the CSLLI and H0A0, respectively.

In conclusion, we maintain strong conviction in the ARDC and ARMF portfolios and believe both funds continue 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 and ARMF. If you have any questions about either Fund, please call 1-877-855-3434, or visit the Funds' websites at www.arespublicfunds.com.

Best Regards,

Ares Capital Management II LLC

[i] Source: Goldman Sachs: "Secondary CLO Trading: October 2014 Month End Recap and Thoughts," November 10, 2014.

[ii] Source: Citi. "Global Structured Credit Strategy Who Should Manage My CLO After Risk Retention," November 7, 2014.

[iii] Source: Barclays. "Barclays US CLO Weekly Recap: Week Ending 31-Oct-2014," November 3, 2014.

This article contains the opinions of the Adviser and does not represent a recommendation of any particular security, strategy or investment product. The opinions 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 article is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. Past performance is not indicative of future results and no representation is made that stated results will be replicated.

Ares Dynamic Credit Allocation Fund, Inc.

Fund Profile & Financial Data

October 31, 2014 (Unaudited)

Portfolio Characteristics as of 10.31.14

Weighted Average Floating Coupon[1]	5.31%
Weighted Average Bond Coupon[2]	8.82%
Current Distribution Rate[3]	8.33%
Dividend Per Share	$ 0.117

1 The weighted-average gross interest rate on the pool of loans as of October 31, 2014.

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

3 The distribution rate is calculated based on latest declared monthly dividend annualized and divided by the closing market price of the Fund's shares as of October 31, 2014. The Fund currently estimates that such distributions have been paid entirely from investment income. However, to the extent any portion of the current distribution is paid from sources other than investment income (such as long-term capital gains or return of capital) the source(s) would be disclosed in a Section 19 notice located under the "Investor Documents" section of the Fund's website. These estimates should not be relied on for tax purposes. The Fund will send to investors a Form 1099-DIV for the calendar year that will define how these distributions should be reported for federal income tax purposes. The distribution rate alone is not indicative of Fund performance.

Top 10 Holdings[4] as of 10.31.14

Flint Group	1.72%
Apidos	1.66%
Syniverse	1.52%
TMF Group	1.36%
Rite Aid Corp	1.35%
Air Medical Group Holdings LLC	1.34%
TransUnion	1.32%
Gala Coral Group Ltd	1.32%
Guala Closures S.P. A.	1.31%
Ferrellgas Partners	1.29%

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 10.31.14

	Market	NAV	Index**
1 Year	1.02%	3.54%	3.77%
Since Inception*	-1.60%	5.99%	5.10%

*Since Inception of fund (11/27/2012). Past performance is not indicative of future results

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.

**Credit Suisse Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market.

Portfolio Composition as of 10.31.14

This data is subject to change on a daily basis.

Fixed vs. Floating Rate as of 10.31.14

Industry Allocation[5] as of 10.31.14

5 Merrill Lynch ML4 industry classifications weighted by market value. These values may be different than industry classifications in certain regulatory filings.

Ares Multi Strategy Credit Fund, Inc.

Fund Profile & Financial Data

October 31, 2014 (Unaudited)

Portfolio Characteristics as of 10.31.14

Weighted Average Floating Coupon[1]	6.00%
Weighted Average Bond Coupon[2]	8.94%
Current Distribution Rate[3]	9.00%
Dividend Per Share	$0.1525

1 The weighted-average gross interest rate on the pool of loans as of October 31, 2014.

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

3 The distribution rate is calculated based on latest declared monthly dividend annualized and divided by the closing market price of the Fund's shares as of October 31, 2014. The Fund currently estimates that such distributions have been paid entirely from investment income. However, to the extent any portion of the current distribution is paid from sources other than investment income (such as long-term capital gains or return of capital) the source(s) would be disclosed in a Section 19 notice located under the "Investor Documents" section of the Fund's website. These estimates should not be relied on for tax purposes. The Fund will send to investors a Form 1099-DIV for the calendar year that will define how these distributions should be reported for federal income tax purposes. The distribution rate alone is not indicative of Fund performance.

Top 10 Holdings[4] as of 10.31.14

TMF Group	1.75%
Gala Coral Group Ltd	1.69%
Alinta Energy Ltd	1.57%
Air Medical Group Holdings LLC	1.55%
Boyd Gaming	1.53%
ATLAS IV CLO	1.53%
Cent XVIII CLO LP	1.53%
Premier Foods	1.51%
Babson CLO Ltd	1.45%
LIN Television Corp	1.40%

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 10.31.14

	Market	NAV	Index**
1 Year	-10.53%	2.82%	3.77%
Since Inception*	-12.62%	2.50%	3.82%

*Since Inception of fund (10/28/13). Past performance is not indicative of future results

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.

**Credit Suisse Leveraged Loan Index is an unmanaged market value-weighted index designed to mirror the investable universe of the U.S. dollar denominated leveraged loan market.

Portfolio Composition as of 10.31.14

This data is subject to change on a daily basis.

Fixed vs. Floating Rate as of 10.31.14

Industry Allocation[5] as of 10.31.14

5 Merrill Lynch ML4 industry classifications weighted by market value. These values may be different than industry classifications in certain regulatory filings.

Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments

October 31, 2014

Floating Rate Term Loans 45.9%(b)

	Principal Amount	Value(a)
Aerospace & Defense 1.3%		
DAE Aviation Holdings, Inc., Initial Loan 2nd Lien, 7.75%, 08/05/2019	$2,687,500	$ 2,677,423
DAE Aviation Holdings, Inc., Tranche B-1 Loan (2018), 5.00%, 11/02/2018	249,204	248,815
Doncasters U.S., LLC, Term Loan 2nd Lien, 9.50%, 10/09/2020	1,241,379	1,233,620
		4,159,858
Automobile 1.1%		
TI Group Automotive Systems, LLC, Additional Term Loan, 4.25%, 07/02/2021	3,500,000	3,465,000
Banking, Finance & Insurance 0.8%		
Asurion, LLC, 2nd Lien Term Loan, L+7.50%, 03/03/2021(c)	2,500,000	2,538,125
Beverage, Food & Tobacco 1.0%		
Charger OpCo B.V., EUR Term Loan B, (Netherlands), L+3.50%, 06/30/2021(c)	€1,500,000	1,858,323
Charger OpCo B.V., US Term Loan B, (Netherlands), L+3.50%, 07/23/2021(c)	$1,500,000	1,485,000
		3,343,323
Broadcasting & Entertainment 1.5%		
Clear Channel Communications, Inc., Tranche E Term Loan, L+7.50%, 07/30/2019(c)	2,500,000	2,400,775
TWCC Holding Corporation, Term Loan 2nd Lien, 7.00%, 06/26/2020	2,500,000	2,448,950
		4,849,725
Business Equipment & Services 1.6%		

Twelve Beeches Sarl, Facility B, (Luxembourg), 5.50%, 08/02/2019	£ 750,000	1,192,510
Twelve Beeches Sarl, Facility C, (Luxembourg), 5.50%, 08/02/2019	2,500,000	3,976,272
		5,168,782

Floating Rate Term Loans[b] *(continued)*

	Principal Amount	Value[a]
Cable & Satellite TV 3.0%		
Altice Financing S.A., Term Loan, (Luxembourg), 5.50%, 07/02/2019	$3,473,750	$ 3,491,119
Promotora de Informaciones, S.A., Tranche 2, (Spain), L+2.60%, 12/10/2018[c]	€3,250,000	3,616,779
Virgin Media SFA Finance Ltd., Facility E, (Great Britain), 4.25%, 06/30/2023	£1,575,000	2,498,076
		9,605,974
Chemicals, Plastics & Rubber 2.1%		
Colouroz Investment 1, GmbH, Initial Term Loan C, (Denmark), L+3.75%, 09/03/2021[c]	$ 499,908	488,035
Colouroz Investment 2, LLC, Initial Term B-2 Loan, L+3.75%, 09/03/2021[c]	3,024,033	2,952,212
Colouroz Investment 2, LLC, Initial Term B-2 Loan 2nd Lien, 8.25%, 05/02/2021		