

Ares Dynamic Credit Allocation Fund, Inc.  
Form N-Q  
March 26, 2014

**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, 2014

Date of reporting period: January 31, 2014

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**ITEM 1. SCHEDULE OF INVESTMENTS.**

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments**

January 31, 2014 (UNAUDITED)

|   | Principal Amount | Value (a)    |
|---|------------------|--------------|
| <b>Floating Rate Term Loans 51.8% (b)</b>   |                  |              |
| <b>Aerospace &amp; Defense 1.7%</b>   |                  |              |
| DAE Aviation Holdings, Inc., 2nd Lien Term Loan, L+7.50%, 08/11/2019 (c)                | \$ 1,750,000     | \$ 1,776,250 |
| DAE Aviation Holdings, Inc., Term Loan B-1, 5.00%, 11/02/2018                           | 172,622          | 174,349      |
| FR Acquisition Corporation (U.S.), Inc., Facility B (Mezzanine), 11.85%, 12/21/2017 (d) | 1,256,824        | 1,252,639    |
| Sequa Corporation, Initial Term Loan, 5.25%, 06/19/2017                                 | 2,475,000        | 2,446,117    |
| Standard Aero, Ltd., Term Loan B-2, (Canada), 5.00%, 11/02/2018                         | 78,634           | 79,420       |
|   |                  | 5,728,775    |
| <b>Automobile 1.7%</b>  |                  |              |
| INA Beteiligungsgesellschaft mbH, Term Loan C (EUR), (Denmark), 4.75%, 01/27/2017       | 957,961          | 1,299,061    |
| TI Group Automotive Systems, LLC, Additional Term Loan, 5.50%, 03/28/2019               | \$ 4,498,440     | 4,520,931    |
|   |                  | 5,819,992    |
| <b>Beverage, Food &amp; Tobacco 1.6%</b>  |                  |              |
| Premier Foods PLC, Term Facility B, (Great Britain), L+2.25%, 06/30/2016 (c)            | £ 643,497        | 1,019,569    |
| Premier Foods PLC, Term Facility C3, (Great Britain), L+2.25%, 06/30/2016 (c)           | 1,356,460        | 2,149,202    |
| Rite Aid Corporation, Term Loan 2nd Lien, 5.75%, 08/21/2020                             | \$ 2,000,000     | 2,041,500    |
|   |                  | 5,210,271    |
| <b>Broadcasting &amp; Entertainment 0.9%</b>  |                  |              |
| Salem Communications Corporation, Term Loan, 4.50%, 03/14/2020                          | 2,899,381        | 2,912,080    |
| <b>Business Equipment &amp; Services 2.2%</b>   |                  |              |
| Redtop Acquisitions, Ltd., Euro Term Loan 1st Lien, (Jersey), L+3.75%, 12/03/2020 (c)   | 750,000          | 1,018,123    |
| Redtop Acquisitions, Ltd., USD Term Loan 2nd Lien, (Jersey), 8.25%, 06/03/2021          | \$ 1,000,000     | 1,020,000    |
| Twelve Beeches Sarl, Facility B, (Luxembourg), L+4.50%, 08/02/2019 (c)                  | £ 750,000        | 1,241,496    |
| Twelve Beeches Sarl, Facility C, (Luxembourg), 5.03%, 08/01/2019                        | 2,500,000        | 4,135,978    |
|   |                  | 7,415,597    |
| <b>Cable &amp; Satellite TV 2.9%</b>  |                  |              |
| Altice Financing S.A., Term Loan, (Luxembourg), 5.50%, 07/15/2019                       | \$ 3,500,000     | 3,561,250    |
| TWCC Holding Corporation, Term Loan 2nd Lien, 7.00%, 06/26/2020                         | 3,500,000        | 3,526,250    |
| Virgin Media Investment Holdings, Ltd., C Facility, (Great Britain), 4.50%, 06/05/2020  | £ 1,575,000      | 2,596,116    |
|   |                  | 9,683,616    |
| <b>Chemicals, Plastics &amp; Rubber 1.7%</b>  |                  |              |
| Flint Group Belgium, Tranche B2 Term Facility, (Belgium), L+6.25%, 12/30/2016 (c)       | 1,289,920        | 1,741,842    |
| Flint Group Belgium, Tranche C2 Term Facility, (Belgium), L+6.25%, 12/30/2016 (c)       | 1,854,388        | 2,504,072    |
| Flint Group, Inc., Facility B9 (2016 Extended), 6.58%, 12/28/2016                       | \$ 1,523,941     | 1,522,036    |
|   |                  | 5,767,950    |
| <b>Consumer Products 1.1%</b>   |                  |              |
| True Religion Apparel, Inc., Initial Term Loan, 5.88%, 07/30/2019                       | 2,992,500        | 2,852,241    |
| True Religion Apparel, Inc., Initial Term Loan 2nd Lien, 11.00%, 01/30/2020             | 869,565          | 830,435      |
|   |                  | 3,682,676    |
| <b>Diversified &amp; Conglomerate Services 4.7%</b>                                     |                  |              |
| Advantage Sales & Marketing, Inc., 2013 Incremental Term Loan 1L, 4.25%, 12/17/2017     | 3,859,006        | 3,879,690    |

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|   |           |            |
|---|-----------|------------|
| Advantage Sales & Marketing, Inc., 2013 Other Term Loan 2L, 8.25%, 06/18/2018 | 2,387,249 | 2,418,593  |
| Information Resources Inc., Term Loan, 4.75%, 09/30/2020                      | 2,493,750 | 2,516,618  |
| Language Line, LLC, Tranche B Term Loan, 6.25%, 06/20/2016                    | 1,935,950 | 1,932,330  |
| Syncreon Global Finance (U.S.), Inc., Term Loan, 5.25%, 10/28/2020            | 2,000,000 | 2,005,000  |
| VWR Funding, Inc., Dollar Term B-1 Loan, 4.17%, 04/03/2017                    | 1,707,750 | 1,712,019  |
| VWR Funding, Inc., Euro Term B-1 Loan, 4.48%, 04/03/2017                      | 990,000   | 1,336,833  |
|   |           | 15,801,083 |

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|   | Principal Amount | Value (a)    |
|---|------------------|--------------|
| <b>Floating Rate Term Loans (b) (continued)</b>   |                  |              |
| <b>Electronics 1.0%</b>   |                  |              |
| Freescale Semiconductor, Inc., Tranche B-5 Term Loan, 5.00%, 01/15/2021                       | \$ 3,391,500     | \$ 3,432,062 |
| <b>Forest Products 0.9%</b>   |                  |              |
| NewPage Corporation, Term Loan, 8.75%, 12/21/2018   | 2,940,226        | 2,995,355    |
| <b>Grocery 0.6%</b>   |                  |              |
| Roundy's Supermarkets, Inc., Tranche B Term Loan, 5.75%, 02/13/2019                           | 1,966,145        | 1,985,196    |
| <b>Healthcare, Education &amp; Childcare 4.4%</b>   |                  |              |
| AI Garden B.V., New Facility B1, (Netherlands), 4.73%, 02/13/2020                             | 4,000,000        | 5,432,795    |
| BSN Medical Luxembourg Finance Holding Sarl, Facility B1B, (Luxembourg), 4.00%, 08/28/2019    | \$ 1,100,000     | 1,103,850    |
| BSN Medical Luxembourg Finance Holding Sarl, Term Loan (EUR), (Luxembourg), 4.25%, 08/28/2019 | 2,369,874        | 3,233,431    |
| CHS/Community Health Systems, Inc., Term Loan D, L+3.25%, 01/27/2021 (c)                      | \$ 1,200,000     | 1,212,456    |
| Opal Acquisition, Inc., Term B Loan 1st Lien, 5.00%, 11/27/2020                               | 2,003,930        | 2,014,451    |
| Tunstall Group Finance, Ltd., Facility B1, (Great Britain), 5.55%, 10/16/2020                 | £ 1,000,000      | 1,644,433    |
|   |                  | 14,641,416   |
| <b>Hotels, Motels, Inns &amp; Gaming 1.0%</b>   |                  |              |
| Caesars Entertainment Operating Company, Inc., Term B-4 Loans, 9.50%, 10/31/2016              | \$ 3,457,557     | 3,492,513    |
| <b>Insurance 0.8%</b>   |                  |              |
| Hub International, Ltd., Initial Term Loan, 4.75%, 10/02/2020                                 | 2,793,000        | 2,822,690    |
| <b>Leisure, Amusement &amp; Entertainment 1.2%</b>  |                  |              |
| Delta 2 (Lux) Sarl, Facility B2 (USD), (Luxembourg), 4.50%, 04/30/2019                        | 3,955,075        | 3,999,570    |
| <b>Machinery (Non-agricultural, Non-construction, Non-electronic) 1.9%</b>                    |                  |              |
| Doncasters U.S., LLC, Term B Loan, 5.50%, 04/09/2020  | 2,481,250        | 2,508,395    |
| Doncasters U.S., LLC, Term C Loan, 6.00%, 04/09/2020  | £ 992,500        | 1,646,061    |
| Doncasters U.S., LLC, Term Loan 2nd Lien, 9.50%, 10/09/2020                                   | \$ 2,250,000     | 2,283,750    |
|   |                  | 6,438,206    |
| <b>Manufacturing 1.2%</b>   |                  |              |
| Alliance Laundry Systems, LLC, Initial Term Loan, 4.25%, 12/10/2018                           | 2,229,684        | 2,240,833    |
| Alliance Laundry Systems, LLC, Initial Term Loan 2nd Lien, 9.50%, 12/10/2019                  | 1,736,364        | 1,754,821    |
|   |                  | 3,995,654    |
| <b>Mining, Steel, Non-Precious Metals 0.8%</b>  |                  |              |
| Peabody Energy Corporation, Term Loan, 4.25%, 09/24/2020                                      | 2,493,750        | 2,507,341    |
| <b>Oil &amp; Gas 4.2%</b>   |                  |              |
| Atlas Energy, L.P., Loan, 6.50%, 07/31/2019   | 2,493,750        | 2,562,328    |
| Quicksilver Resources, Inc., Term Loan 2nd Lien, 7.00%, 06/21/2019                            | 2,500,000        | 2,484,375    |
| Rice Drilling B, LLC, Term Loan 2nd Lien, 8.50%, 10/25/2018                                   | 3,970,000        | 4,039,475    |
| Teine Energy, Ltd., Incremental Term Loan, (Canada), 7.50%, 05/17/2019                        | 1,985,000        | 2,007,331    |
| Templar Energy, LLC, Term Loan 2nd Lien, 8.00%, 11/25/2020                                    | 3,000,000        | 3,024,390    |
|   |                  | 14,117,899   |
| <b>Personal Transportation 2.3%</b>   |                  |              |
| Air Medical Holdings, LLC, B-1 Term Loan, 5.00%, 06/30/2018                                   | 3,339,009        | 3,359,878    |
| Air Medical Holdings, LLC, Term Loan, 7.63%, 05/31/2018 (d)                                   | 2,000,000        | 1,965,000    |
| Scandlines Aps, Facility B, (Denmark), 4.70%, 11/04/2020                                      | 1,718,750        | 2,345,275    |
|   |                  | 7,670,153    |
| <b>Personal, Food &amp; Miscellaneous Services 1.7%</b>                                       |                  |              |
| Elior S.C.A., Facility I Tranche, (France), 4.96%, 03/29/2019                                 | 3,500,000        | 4,741,895    |
| Weight Watchers International, Inc., Initial Tranche B-2 Term Loan, 3.75%, 04/02/2020         | \$ 997,487       | 889,978      |



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|   | Principal Amount | Value (a)          |
|---|------------------|--------------------|
| <b>Floating Rate Term Loans (b) (continued)</b>   |                  |                    |
| <b>Pipeline 0.9%</b>  |                  |                    |
| Crestwood Holdings, LLC, Tranche B-1 Term Loan, 7.00%, 06/19/2019                           | \$ 2,951,968     | \$ 3,022,078       |
| <b>Printing &amp; Publishing 1.7%</b>   |                  |                    |
| Advanstar Communications, Inc., New 2nd Lien Term Loan, 9.50%, 06/05/2020                   | 2,000,000        | 2,007,000          |
| Dex Media East, LLC, Term Loan (2016), 6.00%, 12/30/2016                                    | 2,339,367        | 1,620,012          |
| Dex Media West, LLC, Loan, 8.00%, 12/30/2016  | 2,718,138        | 2,158,201          |
|   |                  | 5,785,213          |
| <b>Retail Stores 5.0%</b>   |                  |                    |
| CBR Fashion GES.M.B.H., Term B2 Facility, (Denmark), L+4.75%, 04/20/2017 (c)                | 550,000          | 668,932            |
| CBR Textile GmbH, Term C2 Facility, (Denmark), L+5.25%, 04/19/2018 (c)                      | 550,000          | 672,641            |
| Harbor Freight Tools USA, Inc., Initial Loans, 4.75%, 07/26/2019                            | \$ 2,985,000     | 3,027,924          |
| Hudson s Bay Company, Initial Term Loan, (Canada), 8.25%, 11/04/2021                        | 562,500          | 579,842            |
| Hudson s Bay Company, Term Loan 1st Lien, (Canada), 4.75%, 11/04/2020                       | 4,000,000        | 4,054,080          |
| JC Penney Corporation, Inc., Term Loan, 6.00%, 05/22/2018                                   | 2,985,000        | 2,892,346          |
| Neiman Marcus Group, Inc., Term Loan, 5.00%, 10/25/2020                                     | 4,987,500        | 5,042,462          |
|   |                  | 16,938,227         |
| <b>Service &amp; Equipment 0.3%</b>   |                  |                    |
| RBS Worldpay, Inc., Facility D (B1A Extended), (Great Britain), L+4.75%, 11/29/2019 (c)     | £ 500,000        | 828,182            |
| <b>Technology 1.5%</b>  |                  |                    |
| Allflex Holdings III, Inc., (U.S.), Initial Term Loan 1st Lien, 4.25%, 07/17/2020           | \$ 1,995,000     | 2,000,606          |
| Allflex Holdings III, Inc., (U.S.), Initial Term Loan 2nd Lien, 8.00%, 07/19/2021           | 1,500,000        | 1,518,000          |
| Ship Midco, Ltd., Facility C1 (GBP), (Great Britain), L+4.50%, 11/29/2019 (c)               | £ 1,000,000      | 1,654,506          |
|   |                  | 5,173,112          |
| <b>Utilities 1.3%</b>   |                  |                    |
| Alinta Energy Finance Pty, Ltd., Delayed Draw Term Loan, (Australia), 6.38%, 08/13/2018 (e) | \$ 279,107       | 1,744              |
| Alinta Energy Finance Pty, Ltd., Term B Loan, (Australia), 6.38%, 08/13/2019                | 4,255,682        | 4,282,280          |
|   |                  | 4,284,024          |
| <b>Waste Management 0.6%</b>  |                  |                    |
| Waste Industries USA, Inc., Term B Loan, 4.00%, 03/17/2017                                  | 1,980,000        | 1,981,841          |
| <b>Total Floating Rate Term Loans (Cost: \$171,288,109)</b>                                 |                  | <b>173,764,645</b> |
| <b>Corporate Bonds 63.2%</b>  |                  |                    |
| <b>Aerospace &amp; Defense 2.5%</b>   |                  |                    |
| DAE Aviation Holdings, Inc., 144A, 11.25%, 08/01/2015                                       | 6,000,000        | 6,000,000          |
| Spirit AeroSystems, Inc., 6.75%, 12/15/2020   | 2,197,000        | 2,367,267          |
|   |                  | 8,367,267          |
| <b>Banking, Finance &amp; Insurance 3.4%</b>  |                  |                    |
| Galaxy Bidco, Ltd., 144A, (Great Britain), 5.52%, 11/15/2019 (f)                            | £ 1,417,000      | 2,340,197          |
| Galaxy Bidco, Ltd., 144A, (Great Britain), 6.38%, 11/15/2020                                | 600,000          | 1,000,030          |
| Nationstar Mortgage, LLC, 10.88%, 04/01/2015  | \$ 2,000,000     | 2,022,500          |
| TransUnion Holding Company, Inc., 9.63%, 06/15/2018 (d)                                     | 5,750,000        | 6,152,500          |
|   |                  | 11,515,227         |
| <b>Beverage, Food &amp; Tobacco 2.1%</b>  |                  |                    |
| Del Monte Foods Company, 7.63%, 02/15/2019  | 2,000,000        | 2,077,500          |
| Michael Foods Holding, Inc., 9.75%, 07/15/2018  | 2,500,000        | 2,690,625          |
| Michael Foods Holding, Inc., 144A, 8.50%, 07/15/2018 (d)                                    | 2,000,000        | 2,095,000          |
|   |                  | 6,863,125          |
| <b>Broadcasting &amp; Entertainment 1.6%</b>  |                  |                    |
| Belo Corporation, 7.25%, 09/15/2027   | 2,000,000        | 2,050,000          |

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|   | Principal Amount | Value (a)  |
|---|------------------|------------|
| <b>Corporate Bonds (continued)</b>                              |                  |            |
| <b>Broadcasting &amp; Entertainment (continued)</b>             |                  |            |
| CBS Outdoor Americas Capital, LLC, 144A, 5.25%, 02/15/2022      | \$ 500,000       | \$ 502,500 |
| CBS Outdoor Americas Capital, LLC, 144A, 5.63%, 02/15/2024      | 1,000,000        | 1,007,500  |
| Lamar Media Corporation, 144A, 5.38%, 01/15/2024                | 1,000,000        | 1,012,500  |
| LIN Television Corporation, 6.38%, 01/15/2021                   | 410,000          | 428,450    |
| LIN Television Corporation, 8.38%, 04/15/2018                   | 320,000          | 336,800    |
|   |                  | 5,337,750  |
| <b>Buildings &amp; Real Estate 1.8%</b>                         |                  |            |
| Hillman Companies, Inc., 10.88%, 06/01/2018                     | 5,674,000        | 6,099,550  |
| <b>Business Equipment &amp; Services 0.6%</b>                   |                  |            |
| iGATE Corporation, 9.00%, 05/01/2016                            | 2,000,000        | 2,115,000  |
| <b>Cable &amp; Satellite TV 6.1%</b>                            |                  |            |
| CCO Holdings, LLC, 7.00%, 01/15/2019                            | 2,750,000        | 2,901,250  |
| Nara Cable Funding, Ltd., 144A, (Ireland), 8.88%, 12/01/2018    | 805,000          | 873,425    |
| Unitymedia KabelBW GmbH, 144A, (Denmark), 9.63%, 12/01/2019     | 2,500,000        | 3,701,371  |
| UPC Holding B.V., 144A, (Netherlands), 6.75%, 03/15/2023        | 3,500,000        | 4,876,140  |
| Videotron, Ltee, (Canada), 9.13%, 04/15/2018                    | \$ 1,874,000     | 1,958,330  |
| Virgin Media Finance PLC, (Great Britain), 8.88%, 10/15/2019    | £ 1,250,000      | 2,228,724  |
| Ziggo Finance B.V., 144A, (Netherlands), 8.00%, 05/15/2018      | 2,700,000        | 3,868,941  |
|   |                  | 20,408,181 |
| <b>Cargo Transportation 1.0%</b>                                |                  |            |
| Watco Companies, LLC, 144A, 6.38%, 04/01/2023                   | \$ 3,200,000     | 3,168,000  |
| <b>Chemicals, Plastics &amp; Rubber 3.4%</b>                    |                  |            |
| Hexion U.S. Finance Corporation, 8.88%, 02/01/2018              | 3,000,000        | 3,120,000  |
| Hexion U.S. Finance Corporation, 9.00%, 11/15/2020              | 1,000,000        | 1,002,500  |
| INEOS Holdings, Ltd., 144A, (Luxembourg), 7.88%, 02/15/2016     | 2,750,000        | 3,710,940  |
| Vertellus Specialties, Inc., 144A, 9.38%, 10/01/2015            | \$ 3,500,000     | 3,482,500  |
|   |                  | 11,315,940 |
| <b>Consumer Products 1.3%</b>                                   |                  |            |
| Elizabeth Arden Salon Holdings, Inc., 7.38%, 03/15/2021         | 3,000,000        | 3,195,000  |
| Elizabeth Arden Salon Holdings, Inc., 144A, 7.38%, 03/15/2021   | 1,000,000        | 1,065,000  |
|   |                  | 4,260,000  |
| <b>Containers, Packaging &amp; Glass 2.2%</b>                   |                  |            |
| Berry Plastics Corporation, 9.50%, 05/15/2018                   | 2,599,000        | 2,767,935  |
| Reynolds Group Holdings, Inc., 9.00%, 04/15/2019                | 2,900,000        | 3,092,125  |
| Reynolds Group Holdings, Inc., 9.88%, 08/15/2019                | 1,500,000        | 1,657,500  |
|   |                  | 7,517,560  |
| <b>Diversified &amp; Conglomerate Services 3.6%</b>             |                  |            |
| Abengoa Finance SAU, 144A, (Spain), 7.75%, 02/01/2020           | 500,000          | 525,000    |
| Abengoa S.A., 144A, (Spain), 8.88%, 11/01/2017                  | 2,500,000        | 2,737,500  |
| Affinion Group Holdings, Inc., 7.88%, 12/15/2018                | 500,000          | 443,750    |
| Affinion Investments, LLC, 144A, 13.50%, 08/15/2018             | 3,060,000        | 3,006,450  |
| Syncreon Holdings, Ltd., 144A, (Netherlands), 8.63%, 11/01/2021 | 2,000,000        | 2,070,000  |
| West Corporation, 8.63%, 10/01/2018                             | 3,000,000        | 3,236,250  |
|   |                  | 12,018,950 |
| <b>Electronics 1.6%</b>   |                  |            |
| Syniverse Holdings, Inc., 9.13%, 01/15/2019                     | 5,000,000        | 5,456,250  |
| <b>Energy 1.2%</b>  |                  |            |
| Hiland Partners, L.P., 144A, 7.25%, 10/01/2020                  | 3,653,000        | 3,908,710  |



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|   | Principal Amount | Value (a)    |
|---|------------------|--------------|
| <b>Corporate Bonds (continued)</b>                                    |                  |              |
| <b>Forest Products 0.6%</b>   |                  |              |
| Verso Paper Holdings, LLC, 11.75%, 01/15/2019                         | \$ 2,000,000     | \$ 2,150,000 |
| <b>Furnishings, Housewares Durable Consumables 2.6%</b>               |                  |              |
| Masonite International Corporation, 144A, (Canada), 8.25%, 04/15/2021 | 2,500,000        | 2,737,500    |
| Sanitec Oyj, 144A, (Finland), 4.97%, 05/15/2018 (f)                   | 4,250,000        | 5,815,935    |
|   |                  | 8,553,435    |
| <b>Grocery 1.0%</b>   |                  |              |
| Boparan Finance PLC, 144A, (Great Britain), 9.88%, 04/30/2018         | £ 1,500,000      | 2,667,690    |
| Roundy s Supermarkets, Inc., 144A, 10.25%, 12/15/2020                 | \$ 789,000       | 832,395      |
|   |                  | 3,500,085    |
| <b>Hotels, Motels, Inns &amp; Gaming 3.0%</b>                         |                  |              |
| Affinity Gaming, 9.00%, 05/15/2018                                    | 2,165,000        | 2,305,725    |
| Marina District Finance Company, 9.88%, 08/15/2018                    | 3,173,000        | 3,414,942    |
| SNAI S.p.A, 144A, (Italy), 7.63%, 06/15/2018                          | 2,250,000        | 3,072,394    |
| SNAI S.p.A, 144A, (Italy), 12.00%, 12/15/2018                         | 1,000,000        | 1,423,271    |
|   |                  | 10,216,332   |
| <b>Leisure, Amusement &amp; Entertainment 0.6%</b>                    |                  |              |
| Regal Entertainment Group, 9.13%, 08/15/2018                          | \$ 2,000,000     | 2,160,000    |
| <b>Mining, Steel, Non-Precious Metals 1.1%</b>                        |                  |              |
| CONSOL Energy, Inc., 8.00%, 04/01/2017                                | 2,000,000        | 2,095,000    |
| CONSOL Energy, Inc., 8.25%, 04/01/2020                                | 1,500,000        | 1,625,625    |
|   |                  | 3,720,625    |
| <b>Non-Durable Consumer Products 0.2%</b>                             |                  |              |
| Jarden Corporation, 7.50%, 01/15/2020                                 | 535,000          | 773,146      |
| <b>Oil &amp; Gas 6.1%</b>   |                  |              |
| Gibson Energy, Inc., 144A, (Canada), 6.75%, 07/15/2021                | \$ 2,000,000     | 2,115,000    |
| Halcon Resources Corporation, 8.88%, 05/15/2021                       | 3,000,000        | 2,992,500    |
| Halcon Resources Corporation, 9.75%, 07/15/2020                       | 1,000,000        | 1,037,500    |
| Halcon Resources Corporation, 144A, 9.75%, 07/15/2020                 | 438,000          | 453,877      |
| MEG Energy Corporation, 144A, (Canada), 7.00%, 12/31/2024             | 2,500,000        | 2,543,750    |
| Midstate Petroleum Company, Inc., 9.25%, 06/01/2021                   | 3,500,000        | 3,640,000    |
| Newfield Exploration Company, 6.88%, 02/01/2020                       | 2,000,000        | 2,140,000    |
| Plains Exploration and Production Company, 8.63%, 10/15/2019          | 4,000,000        | 4,370,000    |
| Quicksilver Resources, Inc., 144A, 11.00%, 07/01/2021                 | 1,000,000        | 1,080,000    |
|   |                  | 20,372,627   |
| <b>Packaging 3.3%</b>   |                  |              |
| Albea Beauty Holdings S.A., 144A, 8.38%, 11/01/2019                   | 2,632,000        | 2,763,600    |
| Guala Closures Group S.p.A., 144A, (Italy), 5.59%, 11/15/2019 (f)     | 380,000          | 519,166      |
| Guala Closures Group S.p.A., 144A, (Luxembourg), 9.38%, 04/15/2018    | 4,000,000        | 5,803,836    |
| Packaging Dynamics Corporation, 144A, 8.75%, 02/01/2016               | \$ 2,000,000     | 2,052,500    |
|   |                  | 11,139,102   |
| <b>Personal, Food &amp; Miscellaneous Services 0.8%</b>               |                  |              |
| Pantry, Inc., 8.38%, 08/01/2020                                       | 2,650,000        | 2,828,875    |
| <b>Pipeline 0.4%</b>  |                  |              |
| Kinder Morgan, Inc., 144A, 5.63%, 11/15/2023                          | 1,500,000        | 1,477,142    |
| <b>Retail Stores 2.9%</b>   |                  |              |
| IVS F S.p.A., 144A, (Italy), 7.13%, 04/01/2020                        | 3,250,000        | 4,591,312    |
| Petco Animal Supplies, Inc., 144A, 8.50%, 10/15/2017 (d)              | \$ 2,000,000     | 2,040,000    |

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|   | Principal Amount | Value (a)    |
|---|------------------|--------------|
| <b>Corporate Bonds (continued)</b>  |                  |              |
| <b>Retail Stores (continued)</b>  |                  |              |
| Rent-A-Center, Inc., 6.63%, 11/15/2020  | \$ 3,000,000     | \$ 3,045,000 |
|   |                  | 9,676,312    |
| <b>Service &amp; Equipment 1.2%</b>   |                  |              |
| Ceridian Corporation, 11.25%, 11/15/2015  | 3,887,000        | 3,906,435    |
| <b>Technology 1.2%</b>  |                  |              |
| GXS Worldwide, Inc., 9.75%, 06/15/2015  | 4,000,000        | 4,110,400    |
| <b>Telecommunications 5.4%</b>  |                  |              |
| Digicel Group, Ltd., 144A, (Bermuda), 8.25%, 09/01/2017   | 4,000,000        | 4,148,000    |
| Digicel Group, Ltd., 144A, (Bermuda), 10.50%, 04/15/2018  | 2,000,000        | 2,126,000    |
| Level 3 Communications, Inc., 9.38%, 04/01/2019   | 2,000,000        | 2,230,000    |
| Wind Acquisition Finance S.A., 144A, (Luxembourg), 5.55%, 04/30/2019 (f)                          | 750,000          | 1,031,718    |
| Wind Acquisition Finance S.A., 144A, (Luxembourg), 11.75%, 07/15/2017                             | \$ 4,501,000     | 4,748,555    |
| Windstream Corporation, 7.75%, 10/15/2020   | 1,000,000        | 1,060,000    |
| Windstream Corporation, 7.75%, 10/01/2021   | 2,500,000        | 2,625,000    |
|   |                  | 17,969,273   |
| <b>Waste Management 0.4%</b>  |                  |              |
| Liberty Tire Recycling, 144A, 11.00%, 10/01/2016  | 1,335,000        | 1,308,300    |
| <b>Total Corporate Bonds (Cost: \$209,762,414)</b>  |                  | 212,213,599  |
| <b>Collateralized Loan Obligations/Collateralized Debt Obligations 23.6% (f)</b>                  |                  |              |
| <b>Banking, Finance &amp; Insurance 2.6%</b>  |                  |              |
| Northwoods Capital X, 144A, (Cayman Islands), 3.00%, 11/04/2025                                   | 4,000,000        | 3,925,080    |
| West CLO 2013-1, Ltd., 144A, (Cayman Islands), 3.89%, 11/07/2025                                  | 3,000,000        | 2,875,611    |
| WhiteHorse VII, Ltd., 144A, (Cayman Islands), 3.95%, 11/24/2025                                   | 2,000,000        | 1,947,430    |
|   |                  | 8,748,121    |
| <b>Structured Finance Obligations 21.0%</b>   |                  |              |
| Apidos CLO XII, 144A, (Cayman Islands), 3.29%, 04/15/2025   | 4,000,000        | 3,729,840    |
| Apidos CLO XIV, 144A, (Cayman Islands), 3.74%, 04/15/2025   | 4,000,000        | 3,895,648    |
| Apidos CLO XV, 144A, (Cayman Islands), 3.50%, 10/20/2025  | 3,000,000        | 2,825,061    |
| Atrium IX, 144A, (Cayman Islands), 3.74%, 02/28/2024  | 2,500,000        | 2,451,493    |
| Carlyle Global Market Strategies CLO 2012-4, Ltd., 144A, (Cayman Islands), 4.74%, 01/20/2025      | 4,000,000        | 4,001,956    |
| Cent XVII CLO, L.P., 144A, (Cayman Islands), 3.74%, 01/30/2025                                    | 4,000,000        | 3,889,192    |
| Dryden Senior Loan Fund XXX, Ltd., 144A, (Cayman Islands), 3.44%, 11/15/2025                      | 1,000,000        | 939,177      |
| Finn Square CLO, Ltd., 144A, (Cayman Islands), 3.85%, 12/24/2023                                  | 4,500,000        | 4,416,309    |
| Galaxy XV CLO, Ltd., 144A, (Cayman Islands), 3.64%, 04/15/2025                                    | 4,000,000        | 3,819,596    |
| Galaxy XVI CLO, Ltd., 144A, (Cayman Islands), 3.59%, 11/16/2025                                   | 2,000,000        | 1,897,920    |
| Greywolf CLO II, Ltd., 144A, (Cayman Islands), 4.07%, 04/15/2025                                  | 4,000,000        | 3,983,396    |
| Halcyon Loan Advisors Funding 2013-1, Ltd., 144A, (Cayman Islands), 3.74%, 04/15/2025             | 4,000,000        | 3,882,044    |
| ING IM CLO 2011-1, LLC, 144A, (Cayman Islands), 3.55%, 06/22/2021                                 | 4,000,000        | 3,843,448    |
| ING IM CLO 2013-1, Ltd., 144A, (Cayman Islands), 3.74%, 04/15/2024                                | 3,000,000        | 2,883,825    |
| KVK CLO 2013-1, Ltd., 144A, (Cayman Islands), 4.59%, 04/14/2025                                   | 3,000,000        | 3,037,002    |
| Mountain Hawk I CLO, Ltd., 144A, (Cayman Islands), 3.34%, 01/20/2024                              | 3,000,000        | 2,814,279    |
| Oak Hill Credit Partners VIII, Ltd., 144A, (Cayman Islands), 3.74%, 04/20/2025                    | 4,000,000        | 3,897,104    |
| OHA Credit Partners VII, Ltd., 144A, (Cayman Islands), 4.24%, 11/20/2023                          | 1,000,000        | 1,001,816    |
| OHA Loan Funding 2013-1, Ltd., 144A, (Cayman Islands), 3.84%, 07/16/2025                          | 4,000,000        | 3,908,644    |
| OZLM Funding III, Ltd., 144A, (Cayman Islands), 4.14%, 01/22/2025                                 | 2,000,000        | 1,980,286    |
| Symphony CLO XI, Ltd., 144A, (Cayman Islands), 4.24%, 01/17/2025                                  | 2,750,000        | 2,713,755    |
| Venture XII CDO, Ltd., 144A, (Cayman Islands), 3.09%, 02/28/2024                                  | 1,000,000        | 987,977      |
| Venture XIII CDO, Ltd., 144A, (Cayman Islands), 3.79%, 06/10/2025                                 | 4,000,000        | 3,840,056    |
|   |                  | 70,639,824   |
| <b>Total Collateralized Loan Obligations/Collateralized Debt Obligations (Cost: \$77,916,316)</b> |                  | 79,387,945   |

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|  |    |               |
|--|----|---------------|
| <b>Total Investments - 138.6%</b>                      |    |               |
| <b>(Cost: \$458,966,839)</b>                           | \$ | 465,366,189   |
| <b>Liabilities in Excess of Other Assets - (38.6%)</b> |    | (129,685,509) |
| <b>Net Assets - 100.0%</b>                             | \$ | 335,680,680   |

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**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 rate in this schedule represents the all-in rate at period end.
- (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) Pay-In-Kind security (PIK), which may pay interest/dividends in additional par/shares.
- (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 January 31, 2014.

As of January 31, 2014, the aggregate cost of securities for Federal income tax purposes was \$458,966,839.

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

|                               |    |             |
|-------------------------------|----|-------------|
| Gross unrealized appreciation | \$ | 8,768,110   |
| Gross unrealized depreciation |    | (2,368,760) |
| Net unrealized appreciation   | \$ | 6,399,350   |

**Abbreviations:**

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

CDO Collateralized Debt Obligation

CLO Collateralized Loan Obligation

**Currencies:**

Euro Currency

£ British Pounds

\$ U.S. Dollars

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments

January 31, 2014 (UNAUDITED)

### **(1) Organization**

Ares Dynamic Credit Allocation Fund, Inc. (the *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 to be treated as a Registered Investment Company (*RIC*). 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 (the *Exchange*) and trade under the ticker symbol *ARDC*.

#### *Investment Objective*

ARDC's investment objective is to provide 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) secured loans (*Senior Loans*) made primarily to companies whose debt is rated below investment grade, (ii) corporate bonds (*Corporate Bonds*) that are expected to be primarily high yield issues rated below investment grade, and (iii) debt securities (*CLO Debt Securities*) issued by entities commonly referred to, and referred to herein, as collateralized loan obligations (*CLOs*). 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**

#### *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 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 January 31, 2014, the fair value of the loans disclosed in the Schedule of Investments does not include unfunded commitments, which total \$279,107.

### **(3) Investments**

***Fair Value Measurements***

The Fund follows the provisions of *Fair Value Measurements and Disclosures* under U.S. generally accepted accounting principles ( 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. *Fair Value Measurements and Disclosures* defines fair value as the amount for which an investment could be sold in an orderly transaction between market participants at the measurement date in the principal or most advantageous market of the investment. 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.

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Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments (continued)

January 31, 2014 (UNAUDITED)

- Level 1 unadjusted quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (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 securities, 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.

*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 collateralized loan obligations 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 Adviser is responsible for all inputs and assumptions related to the pricing of securities. The Adviser has internal controls in place that support its reliance on information received from third-party pricing sources. As part of its internal controls, the Adviser obtains, reviews and tests information to corroborate prices received from third party pricing sources. For any securities, 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 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.





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Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments (continued)

January 31, 2014 (UNAUDITED)

The following is a summary of the inputs used as of January 31, 2014, in valuing the Fund's investments carried at fair value:

|  | Level 1 - Quoted<br>Prices (\$) | Level 2 - Other<br>Significant<br>Observable Inputs<br>(\$) | Level 3 - Significant<br>Unobservable Inputs<br>(\$) | Total (\$)  |
|--|---------------------------------|---|--|-------------|
| Floating Rate Term Loans   |                                 | 154,650,029   | 19,114,616   | 173,764,645 |
| Corporate Bonds  |                                 | 212,213,599   |  | 212,213,599 |
| Collateralized Loan<br>Obligations/Collateralized Debt Obligations |                                 |   | 79,387,945   | 79,387,945  |
| <b>Total Investments</b>   |                                 | 366,863,628   | 98,502,561   | 465,366,189 |

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 January 31, 2014:

|  | Floating Rate Term<br>Loans (\$) | Corporate Bonds (\$) | Collateralized Loan<br>Obligations/<br>Collateralized Debt<br>Obligations (\$) | Total (\$)   |
|--|----------------------------------|----------------------|--|--------------|
| <b>Balance as of 10/31/13</b>  | 24,888,248                       | 5,003,397            | 77,524,340   | 107,415,985  |
| Purchases (a)  | 2,778,277                        |                      |  | 2,778,277    |
| Sales (b)  | (6,169,555)                      |                      |  | (6,169,555)  |
| Realized gain/ (loss) and net change in<br>unrealized appreciation/(depreciation)              | 106,563                          | 38,286               | 1,789,688  | 1,934,537    |
| Accrued discounts/(premiums)   | 13,366                           | (10,861)             | 73,917   | 76,422       |
| Transfers in to Level 3  | 6,921,128                        |                      |  | 6,921,128    |
| Transfers out of Level 3   | (9,423,411)                      | (5,030,822)          |  | (14,454,233) |
| <b>Balance as of 1/31/14</b>   | 19,114,616                       |                      | 79,387,945   | 98,502,561   |
| Net change in unrealized<br>appreciation/(depreciation) from Investments<br>held as of 1/31/14 | 105,250                          |                      | 1,789,687  | 1,894,937    |

(a) Purchases include paid-in-kind interest and securities received from restructure.

(b) Sales include principal redemptions.

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The valuation techniques used by the Adviser to measure fair value as of January 31, 2014 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  | 19,114,616         | Broker quotes and/or 3rd party pricing services | N/A                 | N/A   |
| Collateralized Loan<br>Obligation/Collateralized Debt<br>Obligation | 79,387,945         | Broker quotes and/or 3rd party pricing services | N/A                 | N/A   |
| <b>Total Level 3 Investments</b>                                    | <b>98,502,561</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.

**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) 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 Rule 13a-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 Section 302 of the Sarbanes-Oxley Act of 2002 |
| 3 (a) (2)          | Certification of Principal Financial Officer Pursuant to 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  
Chief Executive Officer (principal executive officer) of  
Ares Dynamic Credit Allocation Fund, Inc.

Date: March 25, 2014

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  
Chief Executive Officer (principal executive officer) of  
Ares Dynamic Credit Allocation Fund, Inc.

Date: March 25, 2014

By: /s/  
Daniel F. Nguyen  
Chief Financial Officer (principal financial officer) of  
Ares Dynamic Credit Allocation Fund, Inc.

Date: March 25, 2014

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