

# Arrow EC Income Advantage Alternative Fund

## Management Report of Fund Performance



### **ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE For the period ended June 30, 2021**

This semi-annual Management Report of Fund Performance contains financial highlights but does not contain the complete unaudited semi-annual financial statements for Arrow EC Income Advantage Alternative Fund (the "Fund"). If you have not received a copy of the unaudited semi-annual financial statements with the management report of fund performance, you may obtain a copy of the unaudited semi-annual financial statements, at no cost, by calling 1-877-327-6048 or by sending a request to Arrow Capital Management Inc. (the "Manager"), 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5, or by visiting our website at [www.arrow-capital.com](http://www.arrow-capital.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us by using one of these methods to request a copy of the Fund's semi-annual financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

#### **The Fund**

The Fund was established in 2012 under the name East Coast Investment Grade Income Fund as a closed end investment fund with its units trading on the Toronto Stock Exchange ("TSX"). Having obtained the approval of unitholders, the Fund was converted (the "Conversion") to an open-end alternative mutual fund and the units were delisted from the TSX on June 26, 2020 (the "Conversion Date").

As part of such Conversion the following changes, among others, were implemented:

- a) on the Conversion Date, the securities of the Fund were re-designated as Series FD Units;
- b) the name of the Fund was changed to Arrow EC Income Advantage Alternative Fund; and
- c) the investment objective and investment strategies of the Fund were changed to reflect those provided for in the simplified prospectus of the Fund.

#### **Forward-Looking Information**

This Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Fund. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward-looking information is given as of the date of this Management Report of Fund Performance, and the Fund undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion on Fund Performance**

### **Investment Objectives and Strategies**

The Fund's investment objectives are to provide unitholders with attractive monthly, tax-advantaged cash distributions, while preserving capital through an actively managed, diversified portfolio of investment grade debt securities of Canadian corporate and government issuers that are rated BBB- or higher by Standard & Poor's, or a similar rating from a qualified rating agency. The portfolio consists primarily of corporate investment grade debt securities and government bonds.

### **Risks**

Risks associated with an investment in the units of the Fund are discussed in the Fund's prospectus (the "Prospectus"). There were no changes to the Fund over the period that materially affected the risks associated with an investment in the units of the Fund.

This Fund is suitable for investors who are able to accept a low to medium degree of risk and are prepared to invest for the medium term.

### **Leverage**

Leverage occurs when the Fund borrows money or securities, or uses derivatives, to generate investment exposure to underlying assets that is greater than the amount invested. It is an investment technique that can magnify gains and losses. Leverage may increase volatility, may impair the Fund's liquidity and may cause the Fund to liquidate positions at unfavorable times. The Fund's leverage is measured by calculating its aggregate gross exposure through the sum of the following: (i) the market value of short holdings; (ii) the amount of cash borrowed for investment purposes; and (iii) the notional value of the Fund's specified derivatives positions, excluding any specified derivatives used for hedging purposes. The maximum aggregate gross exposure is 300% of the Fund's NAV.

The Fund may borrow cash up to a maximum of 50% of its NAV and may sell securities short, whereby the aggregate market value of securities sold short will be limited to 100% of its NAV, except the Fund is permitted to short sell up to 300% of its NAV in government securities. The combined use of short-selling and cash borrowing by the Fund is subject to an overall limit of 100% of its NAV, except where the Fund is permitted to short sell up to 300% of its NAV in government securities.

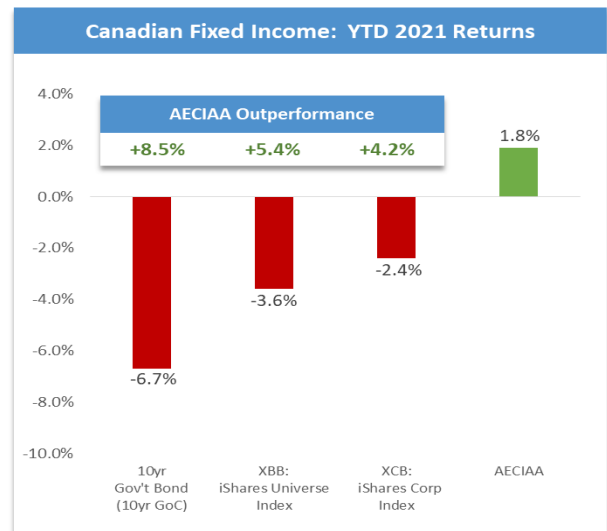
During the period from January 1, 2021 to June 30, 2021, the Fund's aggregate amount of leverage ranged from 109% to 123% (203.0% to 247% in December 31, 2020) of the Fund's NAV during such period of time.

### **Results of Operations**

The net asset value ("NAV") of the Fund increased from \$133.6 million to \$284.0 million from December 31, 2020 to June 30, 2021. The Fund had net sales of \$150.9 million for the period. The Fund paid distributions of \$3.0 million while the portfolio's performance increased assets by \$2.5 million. For the period ended June 30, 2021, Series FD units of the Fund posted a gain of 1.7% (loss of 3.5% in the period of June 30, 2020) while its benchmark, the FTSE TMX Canada Universe Bond Index, posted a loss of 2.3% for the same period (gain of 5.4% in the period of June 30, 2020) for the same period. Please refer to the Past Performance section for the performance of the other Series. The performance of the other Series offered by the Fund differs from Series FD largely because of varying levels of expenses charged to each series, as explained in the Management Fee section.

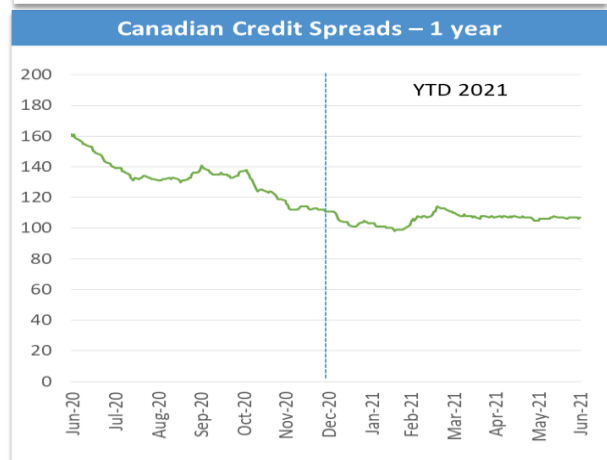
Over the last six months, risk markets have continued a steady rally while interest rates have been extremely volatile. Equity markets in 2021 have rallied 17.3% in Canada (TSX Comp) and 15.2% in the US (S&P500) and seem to print all-time record highs almost every week. On June 18th, the FED's inflation and rate hike announcement led to a roughly -1.5% loss on the day (S&P 500), but it snapped back the very next day. This is yet another example of negative news/data/press releases that the equity market seems to just shake off. Credit spreads have also rallied in 2021 but their moves have been much more muted. US investment grade spreads have rallied 14bps while Canadian IG credit spreads have rallied only 4bps in the first six months. In some issuers, this underperformance has been as much as a 40bps differential between Canadian and US trading levels. Our portfolio managers have been able to initiate multiple relative value trades in recent weeks to take advantage of this pricing disparity.

The fund has contributed a steady positive return stream for investors which is rare within the fixed income space in 2021. The fund has outperformed the FTSE TMX Corporate Index significantly YTD as interest rates has caused sizeable losses in traditional fixed income funds. Any benefit of corporate credit spreads tightening (rally) this year has been entirely dwarfed by the substantial rise in rates (weakness). The immunization from interest rates that the fund aims to achieve for investors has been clearly visible when one compares returns of various fixed income funds in 2021. Funds that do not have mandate flexibility have been unable to protect their investors from the government bond (interest rate) sell-off.



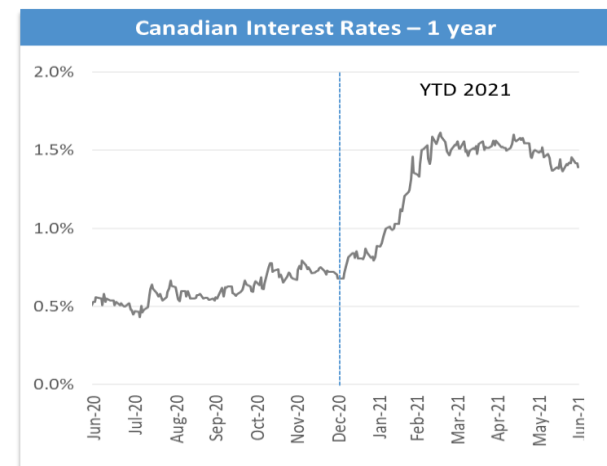
### Barclays Bloomberg Canadian IG Credit Spreads

Investment Grade Credit spreads have traded much more consistently this year as compared to 2020. Spreads have traded within a 15bp range YTD with an even tighter 5bp range for the entire second quarter. This consistency has been a welcome reprieve in investor's fixed income portfolios given what has transpired in terms of interest rate weakness on the year. Canadian IG credit spreads are still trading slightly wider than pre-COVID levels and significantly wider than levels this asset class traded pre-2008 (GFC).



### Interest Rates among the most volatile asset class in 2021

Fixed Income government bond (interest rate) traders have borne the brunt of market volatility thus far in 2021 which is rather ironic given they trade an asset that is classified as 'risk-free'. Interest rates skyrocketed (traded weaker) in Q1 as the I-word (inflation) became the 'nom du jour' with government bonds selling off as much as 20-40bps in the first two months of the year. Then in Q2 longer dated rates started to rallied back slightly. Rates have had much greater volatility than investment grade credit spreads in the first six months of the year.



The portfolio remains defensively positioned. Governments have not even begun the removal of stimulus from both individuals ('stimmy' cheques can only continue for so long) and financial markets (i.e. Fed/US gov't own over \$10 trillion of the total \$21 trillion of US national debt that is publicly available). We don't believe stimulus removal will be a smooth experience for the economy or markets, and while it may help relieve some inflationary pressures, we believe equity, and risk markets, are poised for a correction before year end. ***Do not mistake patience for inaction.*** Every day we actively trade the portfolio in search of RV and incremental yield opportunities for our investors, as we consciously await better levels to add more risk.

**Related Party Transactions**

Related party transactions consist of services provided by the Manager pursuant to a management agreement.

See the Management Fees section below.

The management fee rates are calculated as a % of the net asset value of the Fund as follows:

ANNUAL RATE (%)	Series A, AD, U	Series F, FD, G,ETF	Series I, R
Management Fees	1.45%	0.95%	Negotiable

The Manager is also entitled to receive an annual Performance Fee from the Fund. The annual performance fee is equal to 15% of the increase in the net asset value of the Fund (including any distributions paid on the units of the Fund).

The performance fee will be calculated daily and payable on the last valuation date of each calendar year, except when units of the Fund are redeemed on the applicable redemption date, in which case the Fund shall pay a Performance Fee in respect of any redeemed units of the Fund (the "Interim Performance Fee"). The Interim Performance Fees shall be payable on the applicable redemption date. For any partial year, including with respect to Interim Performance Fees, the hurdle rate will be pro-rated. During the period ended June 30, 2021 the Fund expensed \$405,906 in Performance Fees (2020: \$3) The Fund is responsible for all operating expenses incurred by or on behalf of the Fund.

As at June 30, 2021, amounts owing to the Manager relating to management fees is \$140,835 (excluding HST) (December 31, 2020: \$99,592). Amounts owing to the Manager for administration expenses paid on behalf of the Fund by the Manager is \$45,786 (December 31, 2020: \$39,201).

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance. This information is derived from the Fund's unaudited semi-annual financial statements. The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit. The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

<b>SERIES A - NET ASSETS PER UNIT</b>		
<b>For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020</b>		
	<b>2021</b>	<b>2020<sup>†</sup></b>
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 10.79</b>	<b>\$ 10.00</b>
Increase (decrease) from operations:		
Total revenue	0.27	(0.07)
Total expenses	(0.16)	0.03
Realized gains (loss)	0.25	0.21
Unrealized gains (loss)	(0.21)	0.58
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.15</b>	<b>\$ 0.75</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	-	(0.08)
From capital gains	-	-
From return of capital	-	-
<b>Total distributions</b>	<b>\$ -</b>	<b>\$ (0.08)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 10.95</b>	<b>\$ 10.79</b>

<b>SERIES A - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup></b>		
<b>For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020</b>		
	<b>2021</b>	<b>2020<sup>†</sup></b>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$7,813	\$2,410
Number of units outstanding	713,435	223,470
Management expense ratio before performance fees <sup>4</sup>	1.91%*	1.99%*
Management expense ratio <sup>4</sup>	2.15%*	2.87%*
Management expense ratio before waivers or absorptions <sup>5</sup>	2.15%*	2.87%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per unit	\$10.95	\$10.79

**SERIES AD - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 10.66</b>	<b>\$ 10.00</b>
Increase (decrease) from operations:		
Total revenue	0.26	0.18
Total expenses	(0.15)	(0.09)
Realized gains (loss)	0.24	0.21
Unrealized gains (loss)	(0.17)	0.45
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.18</b>	<b>\$ 0.75</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	(0.22)	(0.13)
From capital gains	-	-
From return of capital	-	(0.08)
<b>Total distributions</b>	<b>\$ (0.22)</b>	<b>\$ (0.21)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 10.61</b>	<b>\$ 10.66</b>

**SERIES AD - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$39,870	\$7,565
Number of units outstanding	3,758,491	709,665
Management expense ratio before performance fees <sup>4</sup>	1.87%*	1.97%*
Management expense ratio <sup>4</sup>	2.11%*	2.78%*
Management expense ratio before waivers or absorptions <sup>5</sup>	2.11%*	2.78%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per unit	\$10.61	\$10.66

**SERIES F - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 10.79</b>	<b>\$ 10.00</b>
Increase (decrease) from operations:		
Total revenue	0.27	0.14
Total expenses	(0.14)	(0.09)
Realized gains (loss)	0.26	0.22
Unrealized gains (loss)	(0.21)	0.46
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.18</b>	<b>\$ 0.73</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	-	(0.08)
From capital gains	-	-
From return of capital	-	-
<b>Total distributions</b>	<b>\$ -</b>	<b>\$ (0.08)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 10.98</b>	<b>\$ 10.79</b>

**SERIES F - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>1</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$34,155	\$13,868
Number of units outstanding	3,109,895	1,285,153
Management expense ratio before performance fees <sup>4</sup>	1.37%*	1.42%*
Management expense ratio <sup>4</sup>	1.66%*	2.48%*
Management expense ratio before waivers or absorptions <sup>5</sup>	1.66%*	2.48%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per unit	\$10.98	\$10.79

**SERIES FD - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the years ended December 31,

	2021	2020	2019	2018	2017
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 9.33</b>	<b>\$ 9.29</b>	<b>\$ 9.14</b>	<b>\$ 9.49</b>	<b>\$ 9.48</b>
Increase (decrease) from operations:					
Total revenue	0.23	0.58	0.67	0.72	0.60
Total expenses	(0.13)	(0.30)	(0.34)	(0.27)	(0.29)
Realized gains (loss)	0.23	0.03	(0.21)	0.08	1.13
Unrealized gains (loss)	(0.17)	0.04	0.51	(0.47)	(0.87)
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.16</b>	<b>\$ 0.34</b>	<b>\$ 0.63</b>	<b>\$ 0.06</b>	<b>\$ 0.57</b>
<b>Distributions<sup>2</sup>:</b>					
From income (excluding dividends)	(0.24)	(0.22)	(0.41)	-	-
From capital gains	-	-	-	-	-
From return of capital	-	(0.22)	(0.07)	(0.48)	(0.60)
<b>Total distributions</b>	<b>\$ (0.24)</b>	<b>\$ (0.44)</b>	<b>\$ (0.48)</b>	<b>\$ (0.48)</b>	<b>\$ (0.60)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 9.25</b>	<b>\$ 9.33</b>	<b>\$ 9.29</b>	<b>\$ 9.14</b>	<b>\$ 9.49</b>

**SERIES FD - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period ended June 30, 2021 and for the years ended December 31,

	2021	2020	2019	2018	2017
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$176,820	\$94,783	\$121,510	\$124,767	\$84,450
Number of units outstanding	19,109,660	10,157,400	13,073	13,649	8,894
Management expense ratio before performance fees <sup>4</sup>	1.39%*	1.68%	1.70%	1.66%	1.85%
Management expense ratio <sup>4</sup>	1.71%*	2.17%	2.43%	1.66%	2.20%
Management expense ratio before waivers or absorptions <sup>5</sup>	1.71%*	2.17%	2.43%	1.66%	2.20%
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%	451.01%	390.09%	294.30%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%	0.01%	0.02%	0.00%
Trading expense ratio <sup>7</sup>	0.50%*	0.99%	1.19%	1.24%	0.84%
Net asset value per unit	\$9.25	\$9.33	\$9.29	\$9.14	\$9.49

**SERIES I - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 10.89</b>	<b>\$ 10.00</b>
Increase (decrease) from operations:		
Total revenue	0.29	0.20
Total expenses	(0.11)	0.08
Realized gains (loss)	0.46	0.21
Unrealized gains (loss)	(0.11)	0.48
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.53</b>	<b>\$ 0.97</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	-	(0.18)
From capital gains	-	-
From return of capital	-	-
<b>Total distributions</b>	<b>\$ -</b>	<b>\$ (0.18)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 11.17</b>	<b>\$ 10.89</b>

**SERIES I - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$7.5	\$9,305
Number of units outstanding	670	854,659
Management expense ratio before performance fees <sup>4</sup>	0.40%*	0.36%*
Management expense ratio <sup>4</sup>	0.40%*	0.36%*
Management expense ratio before waivers or absorptions <sup>5</sup>	0.40%*	0.36%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per unit	\$11.17	\$10.89



**SERIES U - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup> - CAD</b>	<b>\$ 13.49</b>	<b>\$ 13.68</b>
Increase (decrease) from operations:		
Total revenue	(0.43)	(0.56)
Total expenses	(0.22)	(0.19)
Realized gains (loss)	0.34	0.26
Unrealized gains (loss)	0.15	0.27
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ (0.16)</b>	<b>\$ (0.23)</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	(0.27)	(0.16)
From capital gains	-	-
From return of capital	-	(0.10)
<b>Total distributions</b>	<b>\$ (0.27)</b>	<b>\$ (0.26)</b>
<b>Net Assets, end of period<sup>1</sup> - CAD</b>	<b>\$ 13.08</b>	<b>\$ 13.49</b>
<b>Net Assets, beginning of period<sup>1</sup> - USD</b>	<b>\$ 10.60</b>	<b>\$ 10.00</b>
<b>Net Assets, end of period<sup>1</sup> - USD</b>	<b>\$ 10.55</b>	<b>\$ 10.60</b>

**SERIES U - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$314	\$206
Number of units outstanding	23,985	15,234
Management expense ratio before performance fees <sup>4</sup>	2.02%*	2.04%*
Management expense ratio <sup>4</sup>	2.30%*	3.41%*
Management expense ratio before waivers or absorptions <sup>5</sup>	2.30%*	3.41%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per unit	\$13.08	\$10.60

**SERIES G - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup> - CAD</b>	<b>\$ 13.53</b>	<b>\$ 13.68</b>
Increase (decrease) from operations:		
Total revenue	(0.29)	(0.33)
Total expenses	(0.14)	(0.12)
Realized gains (loss)	0.23	0.30
Unrealized gains (loss)	1.30	0.11
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 1.10</b>	<b>\$ (0.04)</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	(0.27)	(0.16)
From capital gains	-	-
From return of capital	-	(0.10)
<b>Total distributions</b>	<b>\$ (0.27)</b>	<b>\$ (0.26)</b>
<b>Net Assets, end of period<sup>1</sup> - CAD</b>	<b>\$ 13.13</b>	<b>\$ 13.53</b>
<b>Net Assets, beginning of period<sup>1</sup> - USD</b>	<b>\$ 10.63</b>	<b>\$ 10.00</b>
<b>Net Assets, end of period<sup>1</sup> - USD</b>	<b>\$ 10.59</b>	<b>\$ 10.63</b>

**SERIES G - RATIOS AND SUPPLEMENTAL DATA<sup>‡</sup>**

For the period ended June 30, 2021 and for the period ended from June 26, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$1,488	\$66
Number of units outstanding	113,387	4,889
Management expense ratio before performance fees <sup>4</sup>	1.28%*	1.42%*
Management expense ratio <sup>4</sup>	1.55%*	2.55%*
Management expense ratio before waivers or absorptions <sup>5</sup>	1.55%*	2.55%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per share - USD	\$10.59	\$10.63

**SERIES R - NET ASSETS PER UNIT**

For the period ended June 30, 2021 and for the period ended from October 23, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 10.28</b>	<b>\$ 10.00</b>
Increase (decrease) from operations:		
Total revenue	0.25	0.11
Total expenses	(0.14)	(0.16)
Realized gains (loss)	0.25	0.17
Unrealized gains (loss)	(0.19)	0.29
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.17</b>	<b>\$ 0.40</b>
<b>Distributions<sup>2</sup>:</b>		
From income (excluding dividends)	(0.02)	(0.04)
From capital gains	-	-
From return of capital	-	(0.03)
<b>Total distributions</b>	<b>\$ (0.02)</b>	<b>\$ (0.07)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 10.24</b>	<b>\$ 10.28</b>

**SERIES R - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period ended June 30, 2021 and for the period ended from October 23, 2020 to December 31, 2020

	2021	2020 <sup>†</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$8,348	\$5,460
Number of units outstanding	815,019	531,331
Management expense ratio before performance fees <sup>4</sup>	1.46%*	1.50%*
Management expense ratio <sup>4</sup>	1.77%*	2.19%*
Management expense ratio before waivers or absorptions <sup>5</sup>	1.77%*	2.19%*
Portfolio turnover rate <sup>6</sup>	558.04%	277.83%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*	0.01%*
Trading expense ratio <sup>7</sup>	0.50%*	0.99%*
Net asset value per unit	\$10.24	\$10.28

**SERIES ETF - NET ASSETS PER UNIT**

For the period from June 25, 2021 to June 30, 2021

	2021 <sup>†</sup>
<b>Net Assets, beginning of period<sup>1</sup></b>	<b>\$ 20.31</b>
Increase (decrease) from operations:	
Total revenue	(0.10)
Total expenses	0.14
Realized gains (loss)	0.00
Unrealized gains (loss)	(0.04)
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	<b>\$ 0.00</b>
<b>Distributions<sup>2</sup>:</b>	
From income (excluding dividends)	(0.01)
From capital gains	-
From return of capital	-
<b>Total distributions</b>	<b>\$ (0.01)</b>
<b>Net Assets, end of period<sup>1</sup></b>	<b>\$ 20.26</b>

**SERIES ETF - RATIOS AND SUPPLEMENTAL DATA<sup>8</sup>**

For the period from June 25, 2021 to June 30, 2021

	2021 <sup>†</sup>
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$15,196
Number of units outstanding	750,000
Management expense ratio before performance fees <sup>4</sup>	1.70%*
Management expense ratio <sup>4</sup>	1.70%*
Management expense ratio before waivers or absorptions <sup>5</sup>	1.70%*
Portfolio turnover rate <sup>6</sup>	558.04%
Trading expense ratio before interest and borrowing expenses <sup>8</sup>	0.02%*
Trading expense ratio <sup>7</sup>	0.50%*
Net asset value per unit	\$20.26
Closing market price	\$20.31

<sup>†</sup>The Fund was launched on April 26, 2012. Series A, AD, F, I, U, and G units began operations on June 26, 2020. Series R units began operations on Oct 23, 2020. Series ETF began operations on June 25, 2021.

\*Ratios have been annualized.

1. The net assets per share shown are referenced to net assets attributable to holders of redeemable shares determined in accordance with International Financial Reporting Standards ("IFRS") and are derived from the Fund's financial statements. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per share.
2. Distributions, if applicable, were reinvested in additional shares of the Fund at the discretion of the underlying shareholders.
3. The Manager may absorb certain expenses or waive certain fees otherwise payable by the Fund. The amount of expenses absorbed or waived (if applicable) is determined annually at the discretion of the Manager and the Manager can terminate the absorption or waiver at any time.
4. Management expense ratio ("MER") is calculated as total expenses net of waived fees, if applicable, and excludes certain taxes, commissions and other fund transaction costs for the stated year expressed as an annualized percentage of daily average NAV during the stated year. The management expense ratio is calculated in accordance with Part 15 of NI 81-106. Management expense ratio before performance fee is the MER before any performance fees, if applicable, for the stated year.
5. Management expense ratio before waivers or absorptions is the MER inclusive of performance fees before any waivers or absorptions are deducted.
6. The Fund's portfolio turnover rate can indicate how actively the investment advisor manages the portfolio of investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of its securities in its portfolio once in the course of the year. The higher the fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover ratio for the years ended 2019, 2018, and 2017 were calculated based on the average net portfolio of the Fund. The ratios for these years have been restated to be based on average gross portfolio of the Fund.
7. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average NAV during the period.
8. The trading expense ratio before interest and borrowing expenses represents total commissions and other portfolio transaction costs excluding interest expenses and borrowing expenses expressed as an annualized percentage of daily average NAV during the period.
9. Ratios and supplemental data, where applicable, are computed using the NAV of the Fund.

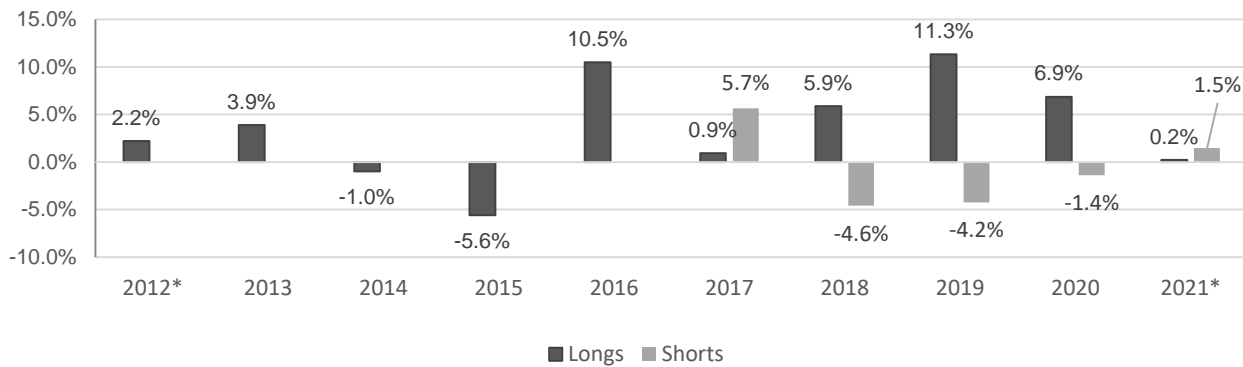
## Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions made by the Fund on its units in the year shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The bar chart shows the Fund's overall total return for each year since inception. The chart shows, in percentage terms, how an investment held on the first day of the fiscal year would have changed by the last day of the fiscal year.

## Year-by-year Returns

The chart below illustrates the Fund's returns for Series FD for the period ended June 30, 2021 and for the years ended December 31 for the Fund units by long and short holdings:



\*Returns shown represent a partial year.

## Annual Compound Returns

The following table shows the Fund's return for the year indicated, compared with the FTSE TMX Canada Universe Bond Index. The benchmark index is calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses. The following table shows the compound total returns of the Fund for the period ended June 30, 2021.

	1 Year	3 Years	5 Years	Annualized Since Inception
Series A	10.2%	N/A	N/A	10.2%
Series AD	10.2%	N/A	N/A	10.2%
Series F	10.5%	N/A	N/A	10.5%
Series FD	11.2%	4.5%	5.5%	3.5%
Series I	13.3%	N/A	N/A	13.4%
Series G	10.0%	N/A	N/A	10.0%
Series U	9.8%	N/A	N/A	9.8%
Series R	N/A	N/A	N/A	N/A*
Series ETF	N/A	N/A	N/A	N/A*
FTSE TMX Canada Universe Bond Index	0.8%	4.9%	3.7%	5.3%

\* Series R units commenced operations on October 23, 2020, therefore the % shown is not applicable. Series ETF commenced operations on June 25, 2021, therefore the % shown is not applicable.

## Summary of Investment Portfolio as at June 30, 2021

The summary of investment portfolio below includes information regarding the Fund as a whole. This summary may change due to ongoing portfolio transactions of the Fund and a quarterly update is available by contacting Arrow at 877.327.6048 or by visiting Arrow's website at [www.arrow-capital.com](http://www.arrow-capital.com).

Industry Sector	% of Net Assets		Top 25 Holdings	%
	<b>Long</b>	<b>Short</b>	<b>Long Positions</b>	
Equities	2.2	-	Cash & Cash equivalents	19.8
Corporate Bonds	162.5	(4.8)	National Bank of Canada, Variable Rate, Callable, 3.183%, 2028-02-01	7.5
Federal Bonds	4.9	(49.4)	Merrill Lynch & Co. Inc., Variable Rate, Callable, 1.492%, 2022-05-30	6.3
Provincial Bonds	-	(2.2)	Molson Coors International L.P., Callable, 2.840%, 2023-07-15	5.8
Derivatives	(0.2)	(0.1)	Morgan Stanley, Floating Rate, Callable, 0.961%, 2023-02-03	5.7
Cash and Cash Equivalents	19.8	-	CI Financial Corp., Callable, 3.215%, 2024-07-22	4.9
Other Net Assets	-	(32.7)	Rogers Communications Inc., Callable, 3.650%, 2027-03-31	4.5
<b>Totals</b>	<b>189.2</b>	<b>(89.2)</b>	Ford Credit Canada Co., Floating Rate, 1.398%, 2020-09-21	4.4
			Wells Fargo & Co., Variable Rate, Callable, 2.568%, 2026-05-01	4.4
			Ford Credit Canada Co., Floating Rate, 3.465%, 2022-01-10	4.1
			Bank of Montreal, Variable Rate, Callable, 4.338%, 2028-10-05	4.0
			Concentra Bank, Floating Rate, 1.107%, 2022-02-07	3.9
			Goldman Sachs Group Inc. (The), Floating Rate, Callable, 1.211%, 2022-07-27	3.9
			Bell Canada, Callable, 3.600%, 2027-09-29	3.8
			Canadian Natural Resources Ltd., 3.310%, 2022-02-11	3.7
			Morgan Stanley, Floating Rate, Callable, 0.766%, 2025-03-21	3.6
			Government of Canada, 0.750%, 2020-09-01	3.5
			Canadian Imperial Bank of Commerce, Floating Rate, Callable, 0.665%, 2024-06-10	3.2
			Sysco Canada Inc., Callable, 3.650%, 2025-04-25	3.1
			Concentra Bank, Floating Rate, 0.904%, 2022-02-07	3.1
			<b>Top long positions as a percentage of total net asset value</b>	<b>103.2</b>
			<b>Short Positions</b>	
			Government of Canada, 1.000%, 2027-06-01	(10.2)
			Government of Canada, 2.500%, 2024-06-01	(7.8)
			Government of Canada, 1.250%, 2025-03-01	(5.7)
			Government of Canada, 1.000%, 2022-09-01	(4.8)
			Government of Canada, 1.000%, 2026-09-01	(3.5)
			<b>Top short positions as a percentage of total net asset value</b>	<b>(32.0)</b>
			<b>Total (%)</b>	<b>71.2</b>
			<b>Total Net Asset Value (in \$ millions)</b>	<b>284.0</b>

\*Credit ratings are obtained from Standard & Poor's, Moody's and/or Dominion Bond Rating Service.

The summary of investment portfolio may change due to ongoing portfolio transactions. A quarterly update is available.