ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
august 2025

Stocks and other risk assets posted modest gains in August, as weaker labor and employment data reignited economic concerns and led markets to reprice expectations for central bank policy. Markets are currently pricing in a 25bps rate cut by both the Federal Reserve and the Bank of Canada at their respective September meetings, with most forecasts anticipating 2–3 total cuts in the U.S. and likely 2 cuts in Canada by year-end. In August, U.S. equities (S&P 500) rose by 2.0%, while Canadian equities (TSX Composite) saw a stronger gain of 5.0%, driven primarily by strength in the Materials sector (natural resources and mining).

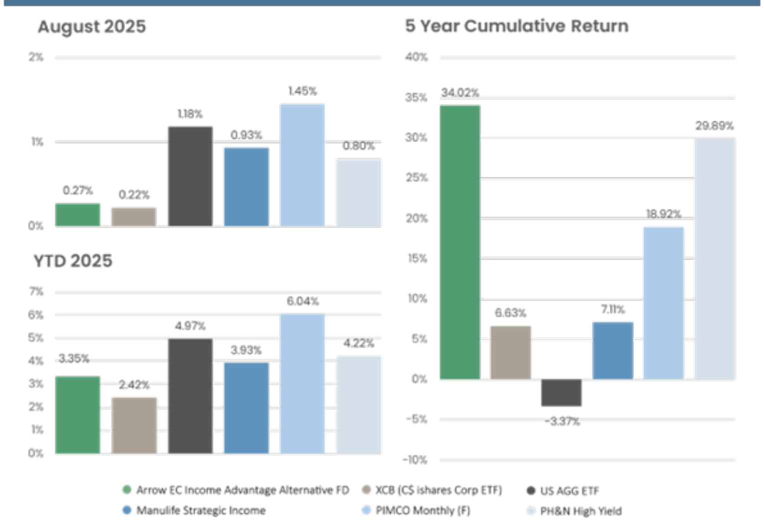
The yield curve steepened and interest rates rallied in August, as markets fully priced in rate cuts for September, resulting in positive fixed income returns. Canadian 2yr Government of Canada (GoC) bond yields rallied by 13bps, while U.S. 2-year Treasury yields saw a more significant drop (rally) of 34bps. Longer-term yields also rallied, though to a lesser extent, with 10yr yields rallying 8bps in Canada and 15bps in the U.S.

Credit spreads widened slightly in August, as a wave of corporate new issuance and lower yields - driven by the interest rate rally - led to waning investor demand. The market showed less enthusiasm for new deals, and the increase in supply weighed particularly on the Canadian investment grade (IG) credit market, where spreads widened (weakened) by 6bps, compared to a more modest 2bps move in the U.S.

As the return charts to the right illustrate, funds with significant interest rate exposure (PV01) benefited from the strong rally in interest rates during August—particularly in the U.S. Treasury market. As a reminder, the East Coast strategy is designed to immunize investors from interest rate risk, meaning that monthly rate fluctuations—whether rallies or sell-offs—do not have a direct impact on fund performance.

A particularly relevant comparison for the strategy is XCB—the iShares Canadian Corporate Bond Index ETF. This ETF broadly represents the Canadian investment-grade credit universe, capturing both the interest rate and credit spread component of corporate bonds. Despite the interest rate rally in August, XCB returned just 0.2%, as weakness in the Canadian credit market offset the benefit of falling rates and weighed on overall performance.

Fixed Income Returns[1]
Morningstar: Monthly, YTD 2025, and 5yr Cumulative Returns (%)

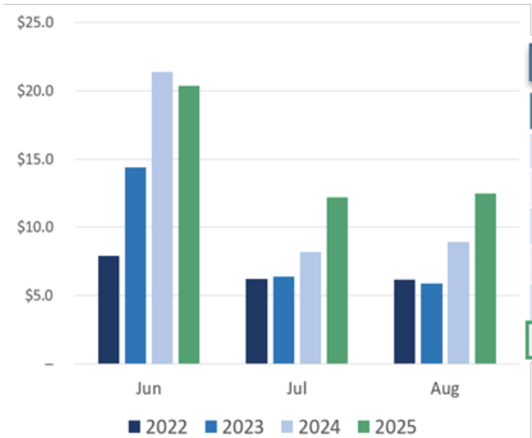


Source: Morningstar Direct, Arrow EC Income Advantage Alternative FD, Blackrock: Index iShares ETFs (XCB, AGG), PIMCO Monthly Fund (F), Manulife Strategic Income Fund (F), PH&N High Yield Bond Fund (F)

In comparison, Arrow EC Income Advantage Alternative Fund delivered a 0.27% return in August—a strong result given that the portfolio is solely exposed to the credit spread component of corporate bonds, which weakened notably during the month. The portfolio receives no benefit from interest rate movements, meaning it did not participate in the rally that supported many other fixed income strategies. The investment team's highly conservative positioning proved effective, generating a solid positive return for investors despite broader credit market headwinds.

August credit markets were heavily focused on digesting a surge in corporate new issuance, which ballooned over the summer compared to prior years. As shown in the chart, 2025 issuance (green bar) significantly exceeded the summer supply seen over the past three years (blue bars) during June, July, and August. So far in 2025, over $45 billion in new issuance has come to market during the summer months—well above the more typical $26–28 billion range, where the 3-, 5-, and 10-year historical averages reside.

Canadian IG Corporate Supply (Total IG: Corp, Banks and ABS)
CIBC Syndicate Desk



YTD SUPPLY (JAN-AUG)

Year	$ Billions
2020	$84.7
2021	$90.4
2022	$82.8
2023	$67.7
2024	$98.7
2025	$101.4

Year to date corporate supply in 2025 has been record breaking as the table at left highlights. There has been over $100B of issuance, compared to an average of $85B over the previous 5yr period and $78B over the previous 10yrs period. The investment team believes a continuation of this increased supply in the Fall is likely and will provide a headwind to corporate credit spreads as we head towards year end.

From the CIBC syndicate desk: *“Despite unprecedented August issuance, we expect this pace of issuance to continue given favourable market conditions, seasonal capex needs, the completion of bank earnings and event driven borrowing needs (i.e. M&A related financing). The five-year average for September is ~$11.6bn.”*

While the portfolio managers were able to selectively pick up some deeply discounted paper amid the heavy corporate supply, the investment team remains patient. The team continues to focus on generating small, consistent returns through active daily portfolio trading, while patiently waiting for a more attractive re-pricing before meaningfully increasing portfolio credit risk (CS01).. With attention firmly focused on upcoming central bank decisions and key economic data releases, the credit market will also need to closely monitor the pace of new issuance and investor demand going forward.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	5.85	7.99	6.03	5.37	4.18

Returns as of August 31, 2025

[1]Source: Morningstar Direct: Arrow EC Income Advantage Alternative (Series FD), iShares Core Canadian Corporate Bond Index ETF (XCB), iShares U.S. Aggregate Bond Index ETF (AGG), PIMCO Monthly Fund (F), Manulife Strategic Income Fund (F), PH&N High Yield Bond Fund (F).

The inception date of the Arrow EC Income Advantage Alternative Fund (formerly East Coast Investment Grade Income Fund) was April 26, 2012. On June 26, 2020, the East Coast Investment Grade Income Fund (TSX: ECF.UN) was converted from a closed end fund into an open-end alternative mutual fund, renamed Arrow EC Income Advantage Alternative Fund and delisted from the TSX. Details of the conversion are outlined in the information circular which is available at www.sedar.com. Unitholders of Fund had their units redes¬ignated as Series FD Units.

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund and exchange-traded fund (ETF) investments. Please read the prospectus and Fund Facts for Arrow EC Income Advantage Alternative Fund carefully before investing before investing. Unless otherwise indicated, the indicated rates of return are the historical annual compound total returns net of fees and expenses payable by the fund (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell securities of an ETF on recognized Canadian exchanges. If the securities are purchased or sold on these Canadian exchanges, investors may pay more than the current net asset value when buying securities of the ETF and may receive less than the current net asset value when selling them.

The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values or returns on investment in an investment fund.

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The comparison presented is intended to illustrate the historical performance of Arrow EC Income Advantage Alternative Fund as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investment funds. There are various important differences that may exist between the Fund and the stated indices or other investment funds that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indices. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indices. Certain statements contained in this communication are based in whole or in part on information provided by third parties and Arrow Capital Management has taken reasonable steps to ensure their accuracy. Market conditions may change which may impact the information contained in this document. Published September 2025.