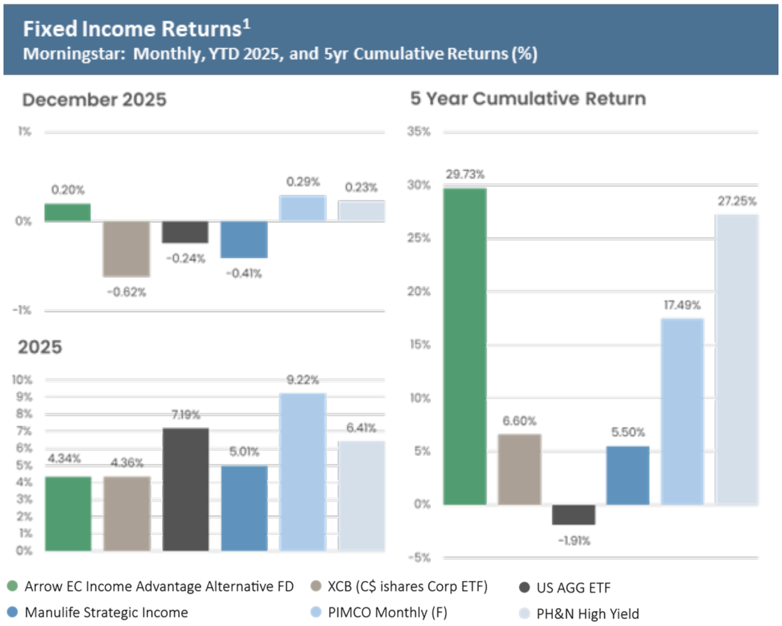
ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
december 2025

December was driven by central bank messaging. The Bank of Canada held rates steady, maintaining a dovish bias as policymakers focused more on slowing economic activity than inflation. In the U.S., the Federal Reserve cut rates by 25bps to 3.50%-3.75% as expected. Powell downplayed inflation risks – suggesting tariff related price pressure on inflation should be viewed as a "one-time" shock – but highlighted growing concerns about labour market weakness suggesting payroll data likely overstating job growth. Fed communications reflected growing internal debate. While two officials dissented against the cut and one pushed for a larger move, improved inflation projections suggest greater scope for easing than the two cuts currently priced by markets.



Reinforcing the more cautious growth tone, the Fed announced plans to restart Treasury bill purchases of roughly US$40 billion per month to address year-end liquidity pressures, supporting funding markets and broader risk sentiment.

Equity markets in both the U.S. and Canada finished the year marginally higher, with the S&P 500 up 0.1% in December and the TSX Composite gaining 1.3%, capping off a strong year (+18% in the U.S. and +32% in Canada). By contrast, rates sold off in December, with Canadian rates staging a particularly weak end to the year. This rates performance weighed on fixed-income indices and traditional bond funds in December. Conversely, credit spreads continued to grind tighter into year end.

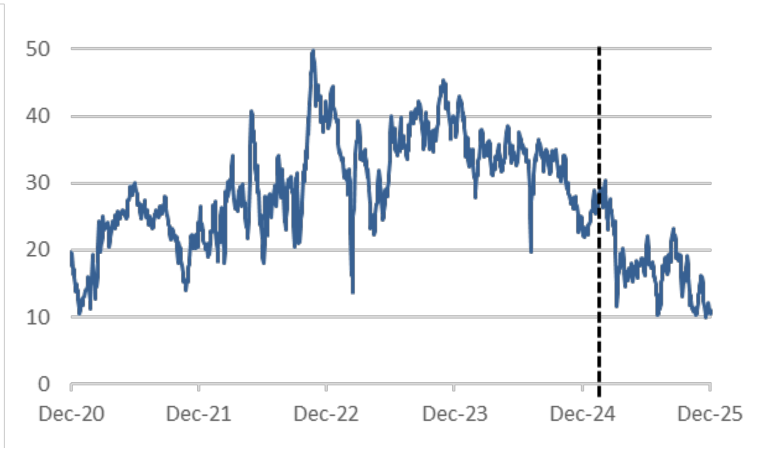
Against this backdrop, the East Coast strategy was able to generate a small positive return in December by insulating investors from the impact of rising interest rates. As designed, the strategy did not suffer losses from the month's rate sell-off. That said, we remain conservatively positioned, as credit spreads now sit at post-GFC tights amid what the investment team views as an unusually uncertain macro and policy environment.

Credit spreads continued to rally in 2025, with Canadian IG credit spreads outperforming their U.S. counterparts. The C$ IG credit index tightened by 15 bps compared with a more modest 4 bps tightening in US$ IG credit index spreads over the year. Performance in the financial sector was broadly in line with the index, as Canadian bank spreads (3-year senior bank bail-in) tightened (rallied) by 14 bps in 2025.

As highlighted in the chart on the lower left, credit valuations remain expensive and are currently trading near post-GFC tights. Outside of a brief 25–35 bp widening around Liberation Day in the first quarter, IG credit spreads traded with a persistent tightening bias throughout most of the year. The chart on the lower right illustrates the outperformance of Canadian IG credit spreads relative to U.S. IG spreads. The main contributors to this outperformance include Canada's relative underperformance versus the U.S. in the early 2020s - this year's tightening largely brings Canadian spreads back in line with 2020 levels - as C$ IG credit entered the year at more attractive (wider) historical starting valuations. In addition, Canadian interest rates underperformed U.S. rates by 40-70 bps, contributing to relatively cheaper all-in yields in Canadian corporate bonds. As a reminder, the all-in yield on Canadian corporate bonds is comprised of the Canadian interest rate component plus a corporate credit spread, which compensates investors for the incremental risk of holding corporate rather than government bonds. On an index-average all-in yield basis, U.S. corporates closed the year at 4.75%, implying an average decline of 54 bps in all-in yields over the year. In contrast, Canadian corporates closed the year at 3.86%, corresponding to an average decline of 17 bps in all-in yields.

C$ 3yr Bank Sr. Bail-in Credit Spread Yield (%)
BMO Capital Markets: 3yr BMO Senior Bail-in credit spread (yield)

Canadian IG Credit Spreads Rallied more than US IG Credit Spreads in 2025
Bloomberg: Canadian IG Credit index OAS spread vs. US IG credit index OAS spread



Long dated credit outperformed short dated credit, as the 10-30s credit curve flattened significantly. For example, Bell Canada 10yrs rallied -18bps while Bell Canada 30yrs rallied -44bps on the year. Net supply in long-dated credit was limited, as significant tender activity in long Canadian credit (particularly in the Telco space) saw $4.6bn of long tenders vs a modest $8bn of long supply. Additionally, the steepening of the Canadian interest rate curve, with 30-year interest rates underperforming, made long corporate credit all-in yields particularly attractive to investors. This strong demand contributed to very expensive (tight) spread valuations in long-dated credit.

Interest rates mostly sold off (yields rose) in Canada, while U.S. rates largely rallied (yields fell) over the year. In Canada, five-year and longer maturities sold off as the yield curve steepened sharply following 100bps of Bank of Canada overnight rate cuts; only short-dated Government of Canada bonds (under five years) rallied on the year. In the U.S., the Federal Reserve cut rates by 75bps in 2025; however, Treasury yields declined across the entire curve, extending out to the long end, with 30-year Treasuries also finishing the year lower. U.S. rate outperformance in 2025 largely reflects market expectations for a further 76bps of Fed easing (approximately three additional cuts) through 2026. By contrast, markets are pricing no additional Bank of Canada cuts and instead imply roughly a 15bp move higher - a 60% probability of a single 25bp hike - in 2026.

2025 C$ GoC Rate Moves	
2yr	-34bps
5yr	+1bp
10yr	+21bps
30yr	+53bps

2025 C$ Curve Steepening	
2s/5s	+35bps
2s/10s	+55bps
10s/30s	+32bps
2s/30s	+87bps

2025 US$ TSY Rate Moves	
2yr	-77bps
5yr	-66bps
10yr	-40bps
30yr	+6bps

2025 US$ TSY Curve Steepening	
2s/5s	+11bps
2s/10s	+37bps
10s/30s	+46bps
2s/30s	+83bps

Investment Team High Level Views as we Start 2026

Credit: The team expects investment-grade (IG) credit returns to be driven primarily by carry rather than further spread tightening. Valuations remain at post-GFC extremes, leaving little room for spreads to rally meaningfully from current levels. Credit markets also face headwinds from heavy new issuance, while demand is likely to be less robust at today's index levels and all-in yields. Last year's steep yield curves supported demand for longer-dated credit but concerns around global bond supply - particularly from AI hyperscaler issuers with a large share of issuance expected at the long end of the curve - are likely to dampen demand for long-dated paper. These dynamics - tight spreads, elevated supply, and valuation constraints - are well understood by the market. As a result, the team believes most investors will demand larger concessions which will result in credit spread cheapening.

Equities: Valuations remain the primary headwind for equities. In the S&P 500, the bulk of this year's returns has been driven by earnings growth, and expectations remain elevated heading into 2026, with the forward P/E near 22x. Any fading of the AI theme would disproportionately impact the Magnificent Seven and likely spill over into broader equity indices, including the S&P 500 and Nasdaq. The team believes meaningful upside from current valuation levels would require a continuation of “Goldilocks” conditions - Fed easing, fiscal stimulus, benign inflation, and easing labor market concerns. Without this backdrop, upside potential appears more limited in 2026.

Rates: In rates, the largest unpriced risk is that inflation deceleration stalls amid easy financial conditions and resilient growth. While markets must consider President Trump’s dovish bias, the FOMC’s overall composition remains relatively hawkish. Even a newly appointed dovish Chair would be constrained without clear evidence of labor market deterioration or subdued inflation. Given markets are still pricing 3 additional FED cuts, there is plenty of room for these expectations to be pared back. Similar scenarios have already played out in other developed markets, including Canada and Australia, where confidence in further easing faded and rates sold off sharply. The pricing of rate hikes in Canada in 2026 appears premature. Portfolio managers view short-dated Canadian government bonds as attractive protection should economic conditions weaken further and central bank expectations shift. That said, the team believes a bond-market-led tantrum is possible this year, with bondholders pushing back against valuations and driving rates higher

Portfolio Positioning: The portfolio remains defensively positioned and well prepared for the heavy issuance expected in January. Credit risk exposure (CS01) sits at the low end of the historical range, reflecting the team’s preference to remain patient and wait for risk premia to cheapen. In 2025, the PMs successfully added risk during periods of weakness, including the Liberation Day sell-off and smaller pullbacks driven by issuance-related spread pressure. Should spread widening materialize in the first quarter of 2026, the portfolio is well positioned to cover shorts and selectively add risk - particularly in new issues if concessions become more attractive.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	4.34	7.49	5.34	5.75	4.15

Returns as of December 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 January 2026.