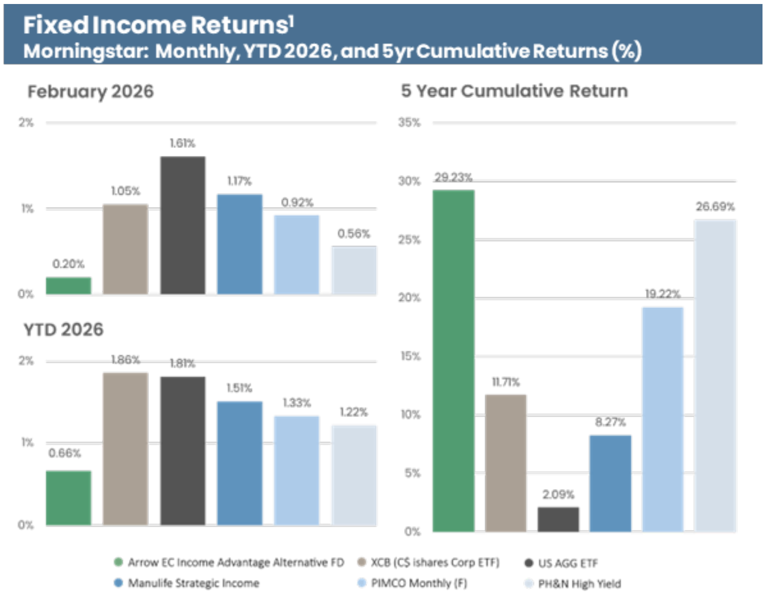
ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
february 2026

Global shares were mixed in February as investors rotated away from large-cap technology stocks following renewed concerns around the pace and potential disruption of advances in artificial intelligence. More asset-heavy sectors such as energy, utilities and industrials performed better, while international markets generally outperformed the United States. Economic data was mixed during the month: inflation moderated slightly (CPI 2.4% YoY) while labour markets remained resilient (payrolls +130k; unemployment 4.3%). The Federal Reserve held rates steady and maintained a data-dependent stance as markets continued to price roughly two rate cuts later in the year. Equity markets reflected significant rotation beneath the surface as the S&P 500 declined modestly (-0.8%) with large-cap technology shares under pressure and value outperforming growth for a fourth consecutive month. In contrast, Canadian equities (TSX Comp) rallied +7.7% as energy, utilities and materials sectors drove strong returns.

Interest rates rallied significantly during the month as government bond yields declined sharply across major markets. Rising geopolitical tension and equity market volatility drove investors to seek refuge in the perceived safe-haven provided by interest rates. North American government bond yields rallied 15-30bps depending upon the tenor and curves bull flattened (long-term yields outperformed short-term yields). U.S. 10yr Treasury yields rallied 30bps to end the month below 4.0% and Canadian 10yr GoC yields rallied 29bps.



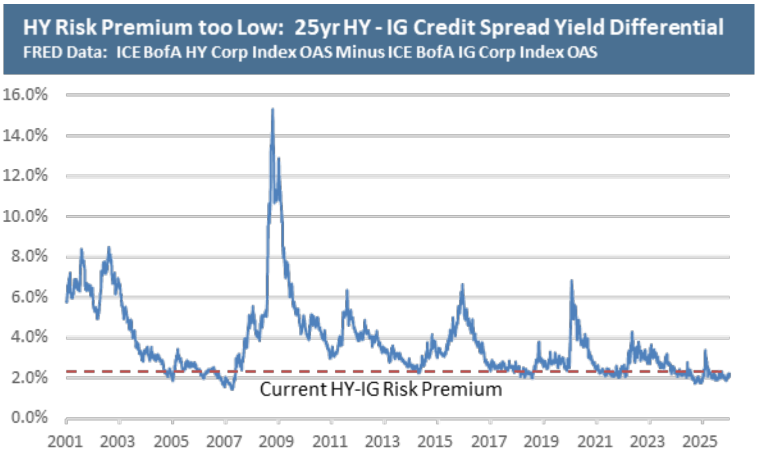
Source: Morningstar Direct, Arrow EC Income Advantage Alternative FD, Blackrock: Index iShares ETFs (XCB, AGG), PIMCO Monthly Fund (F), Manulife Strategic Income Fund (F), PH&N High Yield Bond Fund (F)

Credit market spreads widened from historically tight levels as equity market volatility and stress in private credit weighed on sentiment. US investment-grade spreads widened by +11bps and Canadian IG spreads widened by +10bps. Lower quality credit weakened more substantially, as high-yield spreads widened +25bps. Even with February weakness, credit spreads remain more expensive than long-term averages.

Unlike indices and traditional bond funds, the East Coast strategy aims to isolate corporate credit spreads while hedging interest rate exposure. In February, interest rates rallied sharply and credit spreads weakened. Indices and traditional bond funds benefit from falling yields (higher prices) Even with +10bps of credit spread weakness, the investment team's strategic portfolio positioning delivered investors a positive return in February.

Given the strategy's mandate, there may be slight relative underperformance during months when both rates rally and credit spreads weaken; however, analysis since inception shows this underperformance is quickly re-captured. Historically, the strategy has recaptured any underperformance within 3 mos on average and has then gone on to deliver strong outperformance (1.5x - 2.0x or more on average) over the next 6-12 months

As discussed in the January investor update, liquidity and transparency are often underappreciated until they are most needed. February reinforced this point as private credit funds came under pressure and lower-quality assets underperformed. Investment grade (IG) credit spreads widened by +10bps during the month, while high yield (HY) spreads widened by +25bps. When credit spreads are very tight (expensive), the risk premium between higher- and lower-quality issuers compresses, leaving investors insufficiently compensated for taking additional risk. Over the past year, the investment team has positioned the portfolio defensively; reducing credit risk (CS01) exposure, upgrading the portfolio's credit quality from BBB -> A category, and shortening average maturity of holdings to <2 years. During February's volatility, the investment team realized gains on short positions and maintained a patient approach in anticipation of further credit spread widening. PMs have prioritized flexibility and liquidity, positioning the portfolio to add exposure at more compelling market valuations and higher yields.



While credit spreads have begun to weaken from historically tight (expensive) levels, risk premiums remain extremely low. The chart (left) shows the 25-year historical spread differential between high yield (HY) and investment grade (IG) credit. The orange dotted line represents the current HY-IG risk premium, which remains near the lowest levels observed over the past 25 years. This is notable given that many market participants believe we may be entering a period of greater market stress. During such periods, risk assets typically cheapen as investors rotate toward safer assets, driving risk premiums higher as additional compensation is required for taking on lower-quality credit exposure. To date, however, only a very modest widening in risk premiums has occurred.

The investment team believes current risk premiums, including those within corporate credit, do not adequately compensate investors for the uncertainty that persists. In addition, outright spread levels in high yield remain low, with the average BofA HY spread trading below 3% (300bps) for most of 2026 to date. These levels provide limited compensation for potential defaults or a deterioration in economic conditions.

While strong fundamentals and attractive all-in yields (or investment “carry”) have supported demand for lower-quality credit, the investment team believes several risks are being underpriced at current levels. These include the potential for private credit stress to spill over into public high yield markets, increased expectations for new high yield issuance, and broader late-cycle economic vulnerabilities. In addition, geopolitical developments and headline risks could easily trigger a broader rotation out of lower-quality assets into higher-quality and safe-haven assets.

The investment team remains disciplined, believing risk premiums remain too low. Portfolio managers will opportunistically add credit exposure as risk reprices and credit spreads widen to more attractive levels.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	4.42	6.65	5.26	5.98	4.15

Returns as of Febuary 28, 2026

[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.