ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
july 2025

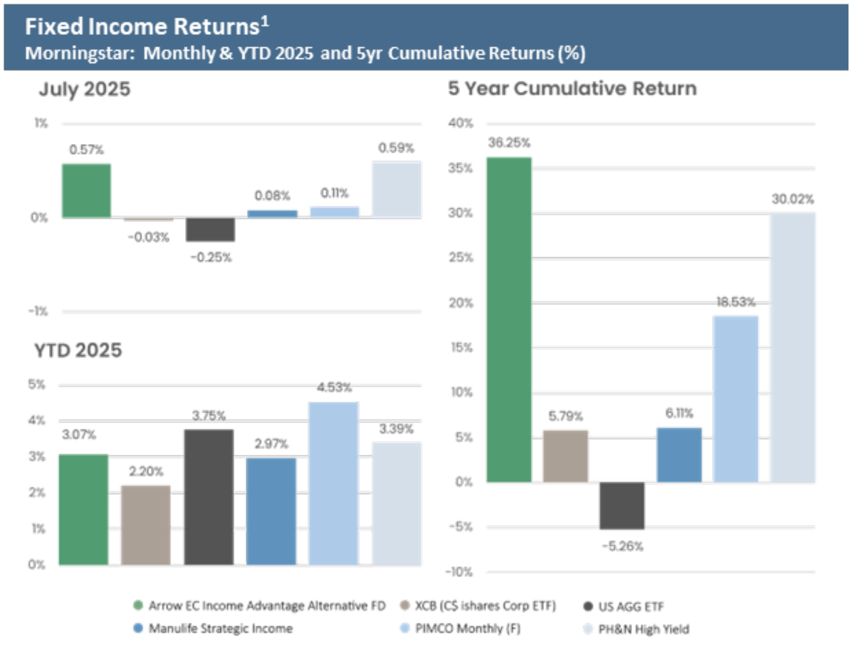
Arrow Capital Management Inc.

Stocks and other risk assets remained resilient in July despite ongoing trade uncertainty and mixed economic indicators. US equities reached new highs, supported by strong corporate earnings, renewed investor interest in technology sectors, and improved sentiment around US trade negotiations. Although the US and China have yet to finalize a comprehensive trade agreement, July saw progress through increased dialogue and initial steps to ease existing tariffs. Markets also responded favorably to new trade agreements between the US and the EU, Japan, Indonesia, and the Philippines. However, no agreements were reached with Canada or Mexico. Geopolitical tensions escalated during the month, with U.S. and Israeli strikes on Iranian nuclear sites contributing to a notable increase in oil prices. The S&P 500 rose 2.2% in July, while Canada's TSX Composite Index gained 1.7%.

On the monetary policy front, both the U.S. Federal Reserve and the Bank of Canada held policy rates steady at the end of the month, amid mixed inflation readings and economic signals. Inflation concerns persist, with ongoing trade frictions keeping upward pressure on prices and complicating efforts to reach inflation targets. Bond markets reflected this uncertainty, with Canadian yields rising 20 basis points and U.S. yields climbing 15–25 basis points across the curve.

Credit spreads tightened with the global rally in risk assets in July. US investment grade (IG) spread index rallied by 7bps, while Canadian IG spread index rallied more significantly by 12bps. High yield (HY) spread index also rallied by 12bps, indicating the narrow HY–IG risk premium may have limited room to tighten further.

In July, the strategy outperformed as credit spreads tightened, while rising interest rates weighed on traditional bond indices and funds. Investors have continued to benefit from the relative stability of investment-grade credit exposure, compared to the heightened volatility seen in interest rate markets in recent years. The strategy has been able to deliver consistent return streams during some highly volatile periods as the investment team is actively managing the risk exposure within the portfolio.

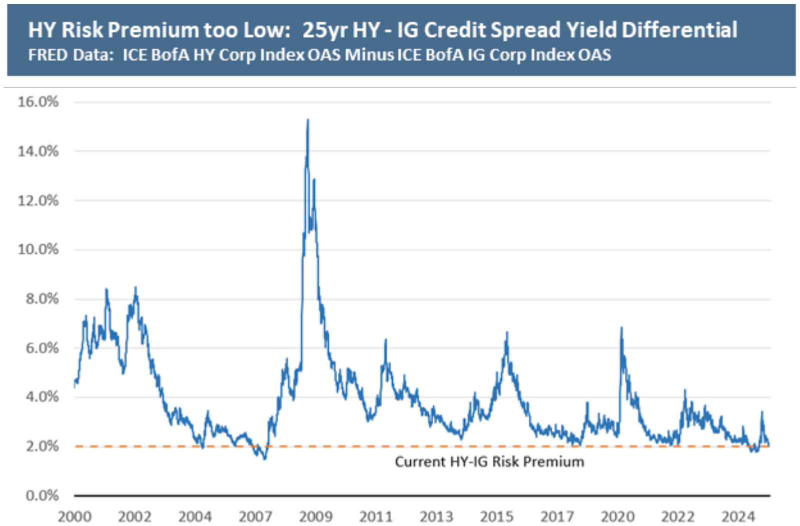


Source: Morningstar Direct, Arrow EC Income Advantage Alternative FD, Blackrock: Index iShares ETFs (XCB, AGG), PIMCO Monthly Fund (F), Manulife Strategic Income Fund (F), PH&N High Yield Bond Fund (F)

Financial markets have shown resilience despite continued uncertainty. Investor reactions to headlines have become more measured, as erratic statements from the Trump administration are increasingly expected. While trade disputes continue, markets appear content to focus on Federal Reserve policy and data releases offering insight into inflation and the broader economy.

That said, the President's decision on August 1 to dismiss the head of the Bureau of Labor Statistics (BLS) following a disappointing U.S. jobs report raises concerns about the integrity of economic data going forward. The move also appears contradictory to the administration's push for lower interest rates, as stronger jobs data would typically support a "higher-for-longer" rate environment.

Investors recognize that the team remains highly cautious and has positioned the portfolio conservatively. Risk has become extremely expensive. Equity markets reached record highs in July, and credit spreads are near all-time tights (high prices). In the current environment, adding risk—whether through longer duration or lower credit quality—offers minimal incremental yield or value.



Risk premiums, including those within corporate credit, are also near historic lows. The chart (left) shows the 25-year historical spread differential between high yield (HY) and investment grade (IG) credit. During periods of market stress, risk assets cheapen as investors rotate to safer options. This drives the risk premium higher, as investors demand more compensation for assuming additional credit risk.

HY-IG spreads were only marginally tighter during a brief window in 2007—just prior to the market unravelling in 2008. While many structural safeguards have since improved (e.g., tighter bank regulations, no subprime housing bubble), some risks remain. Notably, market complacency and elevated global interconnectedness echo pre-crisis conditions, warranting continued vigilance.

This is not to suggest another Global Financial Crisis (GFC) is imminent; however, the risk of a market correction remains elevated — particularly in areas where risk is being mispriced. While subprime mortgage-backed securities (MBS) and collateralized debt obligations (CDOs) no longer pose systemic threats, new vulnerabilities have emerged. Potential stress points include the rapid growth of private credit, shadow banking, and leveraged loans, as well as the opaque nature of crypto markets. Additional concerns include concentration risk in central clearinghouses (CCPs), the dominance of algorithmic trading and the increasing threat of cyberattacks.

The investment team continues to view sovereign debt as the primary market risk, believing the US debt refinancing challenge is being significantly underpriced. Government budgets and Treasury issuance schedules, typically revealed in the fall, align with the historically volatile September–November period for risk assets. As a result, portfolio risk was further reduced in July and now sits at historically low levels. The team remains patient, preferring to wait for more compelling opportunities—marked by higher spreads and yields, more favorable risk-return dynamics, and wider risk premiums.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	5.75	8.20	6.38	5.17	4.19

Returns as of July 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.

This document is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or construed as an endorsement or recommendation of any entity or security discussed. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Market conditions may change which may impact the information contained in this document. All charts and illustrations in this document are for illustrative pur¬poses only. They are not intended to predict or project investment results. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.

Certain statements in this document are forward-looking. Forward-looking statements (“FLS”) are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate,” or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Arrow Capital Management, our sub-advisor East Coast Asset Management, and the portfolio manager believe to be reasonable assumptions, neither Arrow Capital Management nor East Coast Asset Management nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not un¬dertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

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 August 2025.