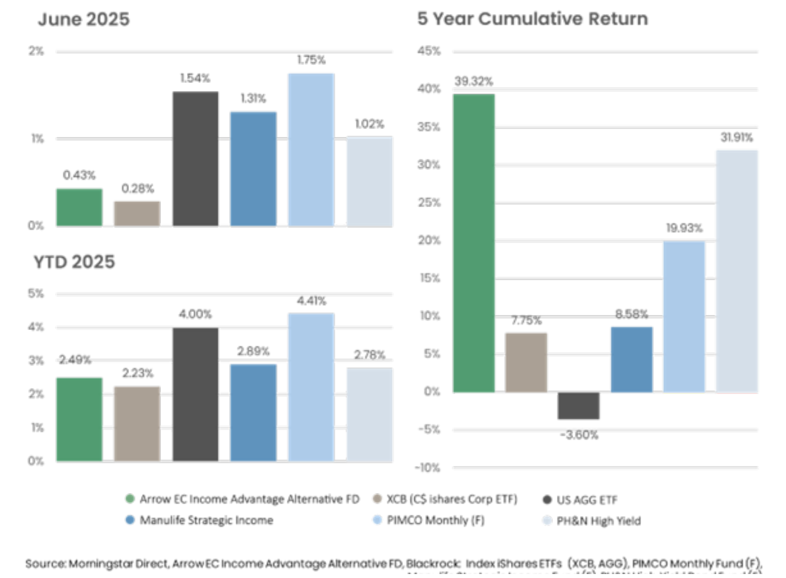
While trade policy and geopolitical uncertainty remained in focus, risk assets continued to recover in June, following weakness in April tied to tariff concerns. The Fed held rates steady at 4.25%–4.50% at its mid-month meeting. While there's growing debate within the central bank, it's still projecting one to two rate cuts by year-end. Inflation risks from tariffs remain a concern, but the labor market stayed solid. June's non-farm payrolls rose by 147k (vs. 110k expected), and the unemployment rate held at 4.1%, which reduced near-term expectations for rate cuts.

U.S. equity markets ended the month higher, with the S&P 500 up 5.1%. Canadian equities underperformed slightly, gaining 2.9%. In Canada, front-end rates were flat, but yields moved higher further out the curve—10-year GCAN yields rose 7bps—driven by sticky inflation, stronger-than-expected GDP, and ongoing tariff concerns. In contrast, U.S. rates rallied, with 10-year TSY yields falling 17bps as softer inflation data and slower growth led markets to price in more Fed easing.

Credit spreads have rallied significantly since the April market sell-off. In June, the U.S. IG Credit Index rallied, or tightened, by 4 bps, while the Canadian IG Credit Index rallied by 3 bps; bringing both indices near all-time low spread (high price) levels.

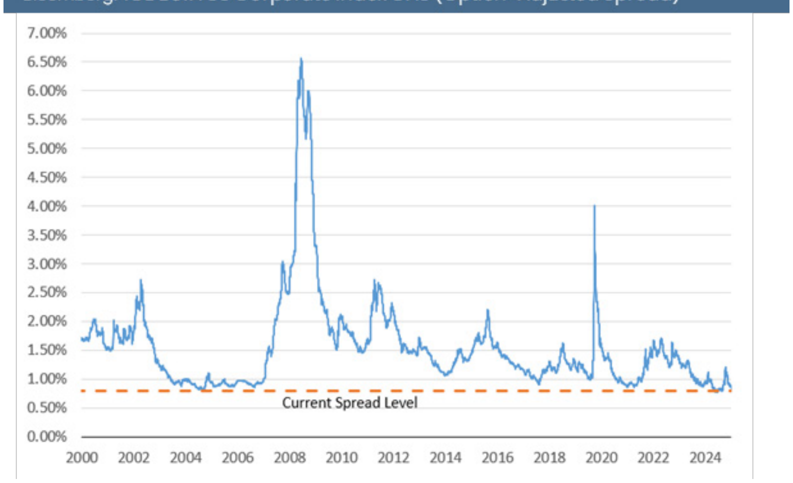
Fixed Income Returns[1]
Morningstar: Monthly & YTD 2025 and 5yr Cumulative Returns (%)



The U.S. interest rate rally, with a 15–20 bps drop across the rate curve, contributed to U.S. index and fund outperformance relative to Canadian investments in June. The AECIAA strategy continued to outperform Canadian bond indices, such as the C$ iShares Corporate bond Index (XCB), delivering consistent returns that are largely unaffected by interest rate volatility.

The investment team believes that continued volatility in rates is inevitable. Significant geopolitical risks, tariff uncertainty (and its inflationary effects), along with substantial government borrowing and the resulting bond issuance, suggest that a straight-line move lower in rates or an implied status quo central bank easing policy is unlikely.

US IG Credit Spreads: 25yr History
Bloomberg: ICE BofA US Corporate Index OAS (Option-Adjusted Spread)



As a reminder, the mandate aims to immunize investors from interest rate movements—meaning investors in the strategy neither benefit from upside when rates rally nor suffer from downside when rates sell off.

Credit Spreads are nearing all-time low (most expensive) levels witnessed in the last 25yrs and the PMs do not believe these low spread levels appropriately compensate investors for credit risk. As the chart at left shows, current IG Corporate Index spread levels are trading in line with pre-GFC market conditions.

Historically speaking, even a mild recession can weaken (widen) spreads by 50–100 bps from current levels. Even more concerning to the team is the High Yield (HY)

– Investment Grade (IG) risk premium, which is trading dangerously low. The PMs believe HY is not offering anywhere near sufficient compensation for its liquidity, default, and downgrade risk, especially as we are heading into a late-cycle environment.

A minor deterioration in sentiment, or the soft-landing economic slowing that is expected, would lead to spread widening (prices falling); however, the unplanned, macro shock (geopolitical, trade wars etc.) remains a concern in this uncertain market environment. Credit spreads, even the highest quality, investment grade (IG) rated investments, would be negatively impacted. The team believes this minimal risk premium is not sufficient and leaves investors very vulnerable to widening, and our risk exposure (CS01) is extremely low as a result.

As mentioned in the May investor update, the investment team began significantly de-risking the portfolio after capturing much of the substantial credit spread rally. In June, profit-taking continued in response to slightly richer valuations. The investment team's view remains consistent—they will continue to trade the market and capitalize on opportunities as they arise. However, overall positioning remains conservative. The portfolio managers are maintaining patience, waiting for more compelling valuations in IG credit spreads before adding significant exposure for our investors.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	5.89	8.23	6.86	4.94	4.17

Returns as of June 30, 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 July 2025.