

ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

september 2025



Markets defied seasonal expectations in September, with global equities rallying and assets extending their year-to-date gains. Historically one of the weakest months of the year, September instead delivered the sixth consecutive monthly gain for global stocks, supported by a dovish shift from the Fed, signs of stabilizing economic data, and renewed enthusiasm for AI-linked investments. US equities (S&P 500) rose 3.2%, while Canadian equities (TSX Composite) rallied 2.4%. Interestingly, gold surged over 11% during the month, highlighting investor interest in real assets and reflecting growing uncertainty. Gold has historically been viewed as a safe-haven asset within portfolios, helping provide capital protection against -asset losses.

Interest rates rallied again in September, with Canadian government bond yields outperforming. Interest rate moves reflected signs of a slowing labor market and reduced expectations for economic growth. The Canadian 2yr yield fell (rallied) 17bps and the 10yr yield rallied 19bps, supported by a more cautious tone from the Bank of Canada and signs of softening economic data. In the U.S., front-end rates were little changed (2yr yields rallied just 1bp), while longer-dated Treasuries rallied more meaningfully, with 10yr yields rallying 8bps. The most notable move was in the long end: 30yr yields rallied a sizeable 20bps in both Canada and the U.S.

As the return charts to the right illustrate, East Coast delivered another positive monthly return, extending its steady 2025 performance. While the strategy did not benefit from the sizeable rate rally, PMs were able to generate returns through selective credit positioning.

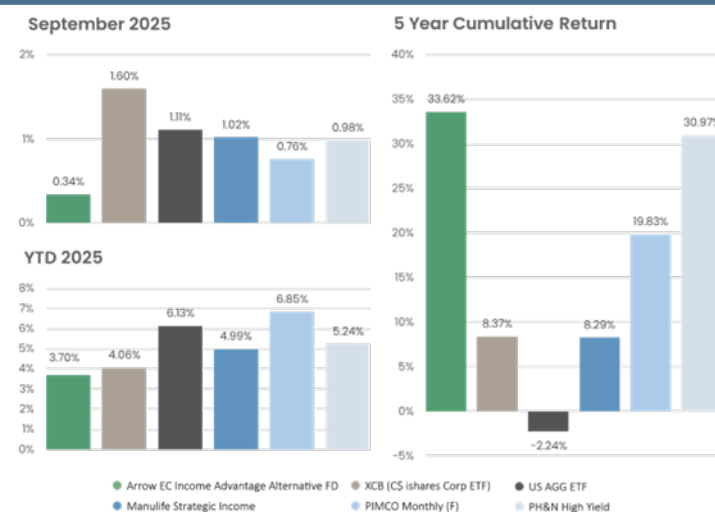
Importantly, this return came despite our highly conservative portfolio stance, which continues to focus on preserving capital and avoiding exposure to the frothiest parts of the market. Relative to peers, our YTD performance remains highly competitive and notably consistent, even as broader fixed income markets grow increasingly dependent on both rate and spread compression.

As anticipated, September was a gangbuster month for investment-grade credit issuance. The CA\$21 billion and US\$215 billion of IG issuance, north and south of the border, marked record volumes not seen outside the post-COVID supply surge. What was most striking was the near absence of new issue concession (NIC) – the additional spread or incentive that corporations typically offer investors to purchase new deals. In September, the NIC for both the US and Canada averaged just 0.01% (1bps). This suggests that most new issue buyers were “all-in” investors, focused on the bond’s total yield rather than the credit spread.

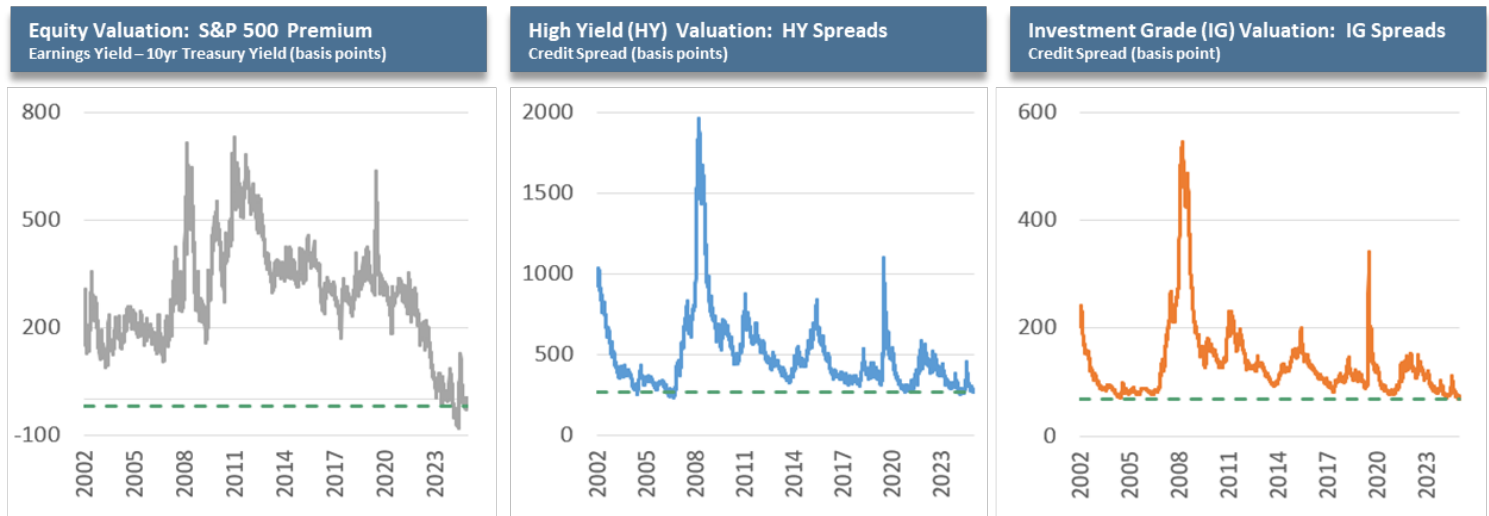
The team believes the current market environment reflects unsustainable levels of optimism, with demand for assets – including IG credit – feeling excessive and multiple markets showing signs of bubble-like behavior. Markets are pricing in a near-perfect soft landing scenario; one in which inflation fades, economic growth holds steady, and central banks continue easing. This leaves little margin for disappointment. With premiums near historic lows (tights), the market appears vulnerable. The portfolio’s defensive positioning reflects this view. While it may seem cautious during rallies, it is designed to protect investor capital and provide the flexibility to add when the bubble deflates.

Fixed Income Returns¹

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)



Despite continued strong market momentum, the charts above serve as a reminder that valuation metrics are trading near historic highs, signaling the need for caution. U.S. equity indices are not only elevated but are trading at peak valuation multiples with highly stretched P/E ratios. High yield (HY) spreads are at cycle lows (high prices), offering minimal compensation for default. Investment grade (IG) spreads have tightened to levels typically seen during periods of extreme investor complacency. These conditions suggest that investors are pricing in a utopian-like smooth path forward – one that leaves no room for disappointment or possible shocks (political, liquidity or credit events, geopolitical, valuation, tech etc.). In this highly uncertain market environment, investor apathy toward seems entirely unjustified.

There is growing evidence of aggressive capital inflows and crowding in popular trades, fueling multiple asset bubbles — from AI-driven tech to private credit, high yield, leveraged loans, and commercial real estate. Price momentum now appears to be running ahead of fundamental progress, with expectations outpacing reality at a time when political remains high, inflation is still above target, and global growth is moderating. This surge in appetite, in the team's view, feels increasingly disconnected from the underlying macro environment.

Such overexuberance strengthens the case for remaining highly selective and -aware. Rather than chase diminishing returns in overcrowded trades, the team continues to prioritize capital preservation and disciplined credit selection. While this conservative stance may seem out of step with short-term market optimism, the team believes this is precisely when discipline matters most. Looking ahead, the investment team wouldn't be surprised to see volatility rise. In this setting, maintaining liquidity, flexibility, and a defensive posture is not only prudent but essential — positioning the fund to both protect capital and seize opportunities when market dislocations occur. This defensive approach is not just deliberate, but also strategic and opportunistic.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	5.35	8.24	5.97	5.51	4.18

Returns as of September 30, 2025

¹Source: 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 redesignated 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 October 2025.