ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
february 2025

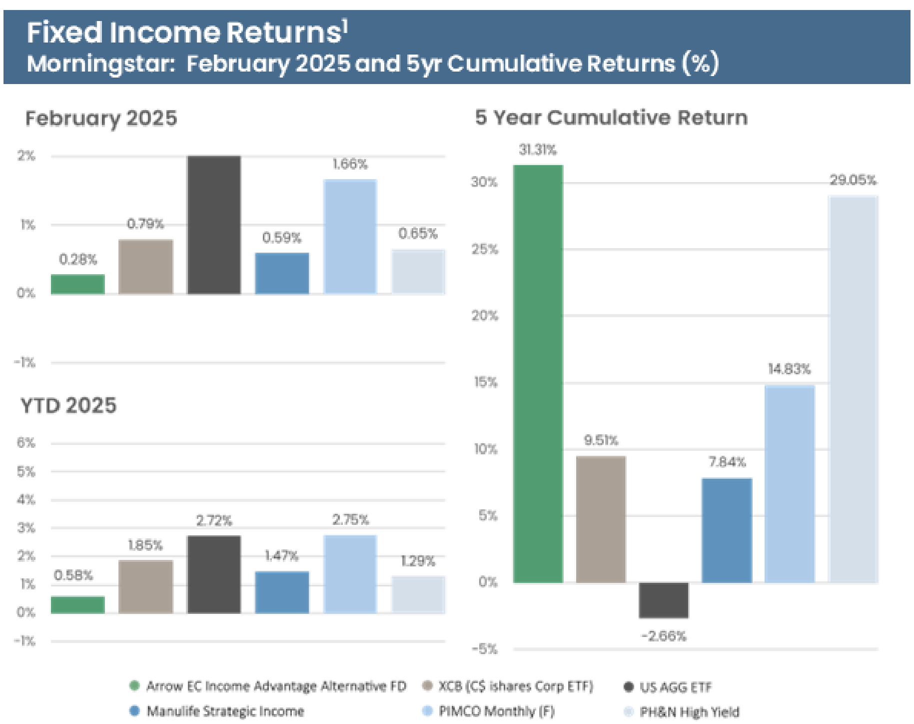
Market sentiment weakened by the end of February as investors began re-evaluating growth expectations and the effects of deregulation under the Trump administration. The “Magnificent 7” (a group of seven mega-cap tech stocks) were responsible for the majority of equity gains in 2024, but have fallen by -5.8% year-to-date in 2025. Consumer discretionary stocks (which include non-essential spending items such as retail, autos, entertainment, and travel) showed clear signs of weakness in February, dropping a significant -7.0%. Investor sentiment turned more cautious due to concerns over slowing economic growth and uncertain government policies, including the potential impact of Trump’s tariffs. On the other hand, sectors like energy and consumer staples helped mitigate losses, as US equity markets (S&P 500) finished down just -1.3%, while Canadian equity markets (S&P TSX Composite) closed down -0.4%.

Against this increasingly cautious backdrop, safe-haven assets emerged as the winners in February. Gold reached a new all-time high, and government bonds rallied. US bond yields (10-year US Treasury) led the safety trade, with yields falling by 31bps over the month. Canadian interest rates (10-year C$ Government of Canada bonds) fell a more modest 17bps. The decline in interest rates and the resulting rise in bond prices contributed to fixed income outperformance in investor portfolios during February.

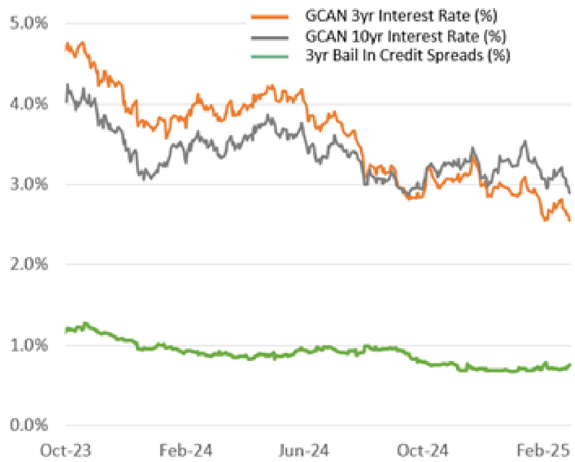
Credit spreads weakened in tandem with equity risk-off sentiment, which spilled over into the credit markets. Additionally, with the large rally in interest rates, the all-in yields on corporate bonds decreased (prices rose), which dampened demand in February. US investment-grade (IG) credit spreads widened by 8 basis points, while Canadian IG credit spreads widened by 6 basis points, partially recovering from the Canadian underperformance in January.

High Yield (HY) spreads, representing lower credit quality, underperformed IG credit spreads in February, widening by more than 20 basis points. We expect this trend to continue. Most high yield funds hold the entire security—both the HY spreads and the interest rate component—so February’s +2.8% return from 7-10 year interest rates (IEF iShares) was able to offset the spread widening this month. When the rate rally stalls, we expect HY funds to underperform.

Canadian IG credit spreads have weakened by 10 basis points, or over 10%, so far in 2025. The East Coast portfolio has been positioned for weakness, as the investment team anticipated that spreads would struggle at the beginning of the year. As a result, investors have still achieved a positive return, despite missing out on the 2-3% Canadian interest rate rally in 2025.



Significant Rate Rally Environment
Bloomberg, BMO Capital Markets, Morningstar



Since Oct '23	Change	Return %
3yr GoC Rate (%)	-216bps (2.16%)	+6.15%
10yr GoC Rate (%)	-113bps (1.13%)	+9.50%
3yr Sr. Bank Bail-in (%)	-44bps (0.44%)	+1.25%

Since Oct 2023	Return %
AECIAA	+12.3%

The AECIAA mandate aims to eliminate interest rate exposure, focusing entirely on investment-grade (IG) credit spreads, a highly diversifying asset class. Despite the recent rally in rates, AECIAA investors have still achieved strong returns in this environment. Since October 2023, the credit spread portion of a 3-year Senior Bank Bail-In bond has delivered a return of approximately +1.25%, while AECIAA investors have seen a return of +12.3% over the same period.

While interest rates may continue to fall, the team does not anticipate a rally as significant as the one observed since October 2023. Furthermore, as interest rates have fallen, the yield available to investors in traditional funds and indices has decreased substantially. For instance, Canadian interest rates (2-year and 10-year) yielded around 4-4.5% in October 2023, but they are now yielding only 2.5-3%.

The AECIAA mandate remains active, with the team positioned for credit spread widening. In contrast, traditional index funds are passive, with portfolio positions that do not adjust in anticipation of potential market movements.

The investment team remains focused on navigating the potential for ongoing market volatility. With the portfolio strategically positioned to benefit from continued credit spread widening, we are poised to increase exposure as spreads widen further; enhancing the portfolio's current yield and expected return. By focusing on higher-quality, short-dated credit, we aim to mitigate volatility while continuing to deliver a consistent and reliable return stream for our investors. As always, we are committed to managing risk while seeking return opportunities for investors in these dynamic market conditions.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	6.08	7.28	5.60	4.79	4.13

Returns as of February 28, 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 March 2025.