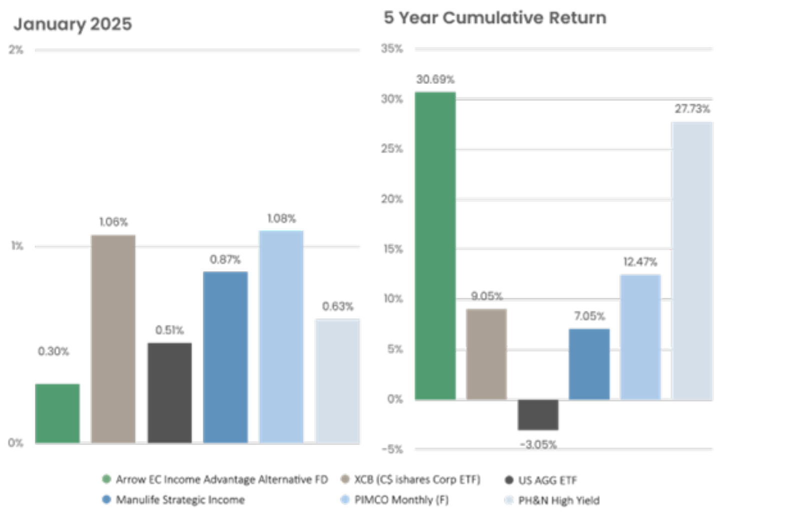
ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
january 2025

The anticipated market volatility of 2025 quickly materialized. Central bank activity, combined with a chaotic launch of President Trump's second term, led to a turbulent start for investors. The Bank of Canada (BoC) cut rates by 25 basis points and removed forward rate guidance from its statement, citing economic uncertainty, particularly around tariffs. Meanwhile, the Federal Reserve opted to keep rates unchanged in January. The Fed acknowledged that inflation remained elevated, and although the labor market remained strong, Chairman Powell appeared to adopt a wait-and-see approach to assess the potential impact of President Trump's policies and executive orders, as well as upcoming data releases. While many of the Trump administration's policies—such as spending cuts and deregulation—were generally perceived as market-friendly, the rapid issuance of numerous executive orders in the first two weeks seemed to unsettle markets. Investors appeared confused about certain aspects of the President's agenda and the administration's handling of initial executive orders.

By the end of January, equity markets closed in positive territory. U.S. equities (S&P 500) gained +2.8%, while Canadian equities (TSX Composite) rose +3.5%. Canadian rates rallied across the curve, with a notable steepening. The BoC rate cut and concerns over tariff impacts led to a -28bps rally in short-dated rates (GCAN 2-year), while ten-year rates (GCAN 10-year) rallied -16bps. U.S. rates were mostly unchanged for the month.

Fixed Income Returns[1]



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)

Investment-grade (IG) credit spreads tightened (rallied) -2bps in the U.S., while Canadian credit underperformed, with C$ IG credit spreads widening by +4bps during the month. The strong rally in Canadian interest rates in January drove returns for Canadian fixed income indices and traditional bond funds. AECIAA investors, however, tend to remain agnostic to interest rate fluctuations—the fund neither benefits from interest rate rallies nor suffers from rate declines. Given the significant volatility expected in 2025, rates are likely to experience rollercoaster-type return months, similar to recent years. The AECIAA strategy continued to deliver consistent, positive returns in January, despite the widening of Canadian credit spreads (+4 basis points). The portfolio's solid yield, combined with defensive positioning through reduced credit duration exposure, were the key drivers of January's return.

C$ 3yr Interest Rate and Bank Sr. Bail-in Credit Spread Yields (%)

The month-to-month volatility of Canadian interest rates continues to drive significant fluctuations in both index and traditional fixed-income fund returns. In contrast, Investment Grade (IG) credit spreads have displayed much lower volatility. The chart on the left shows the daily yield of interest rates (represented by the orange line) alongside the daily yield of IG credit spreads (represented by the green line) over the past three years.

Return streams are generally more stable when the underlying investment assets experience less volatility. IG credit spreads have demonstrated far less volatility, both in the short term and long term, contributing to more consistent returns for AECIAA investors. While the large fluctuations in interest rates are clearly visible in the chart on the left, the following volatility risk (standard deviation) metrics are provided for both the 3-year period and a longer 10-year term.

Volatility Risk (Standard Deviation)	3yr Interest Rates	3yr Bank Credit Spreads
3yr History	0.69%	0.20%
10yr History	1.32%	0.25%

The investment team anticipates continued market volatility and has strategically positioned the portfolio to capitalize on potential credit spread widening. As spreads weaken, the team will increase exposure at higher spreads (lower prices), enhancing the portfolio's current yield and expected return. The portfolio's low duration provides greater flexibility, which is advantageous given the uncertainty surrounding the Canadian-U.S. tariff trade war. The team remains focused on optimizing a portfolio of short-dated, high-quality investment-grade assets, confident that the conservative current positioning will benefit investors.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	7.05	6.94	5.50	4.81	4.13

Returns as of January 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.

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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 February 2025.