

ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

march 2025



Global markets experienced significant volatility and weakness as trade war tensions escalated and investor sentiment shifted. Risk assets weakened as traders struggled to digest tariff announcements and differentiate between those likely to stick and those that would be walked back within 24 hours. U.S. equities (S&P 500) fell 10% from their peak, marking the worst performance since 2022. By the end of March, U.S. equities (S&P 500) were down -5.6%, with the tech-heavy NASDAQ down -7.6%. Canadian equities (S&P TSX Composite) fared somewhat better, declining -1.5%, as energy and commodities emerged as a few of the standout performers in March. Gold reached a record high as demand for safe-haven assets surged.

An interesting anecdote this month came from Bank of America's survey of fund managers, which included 171 participants managing a total of \$477 billion in assets. The survey revealed the biggest-ever cut to U.S. equity allocations in March, with allocations plunging by 40 percentage points—from 17% overweight to a net 23% underweight. Stagflation (high inflation, slow economic growth, and high unemployment) and global trade wars were the most cited reasons for the shift in allocations. Investor sentiment appears to mirror this survey, with growing concerns about the impact of trade wars on the global economy.

The Federal Reserve left interest rates unchanged in March, citing slower expected GDP growth and persistent inflation in the year ahead. Despite market volatility, only shorter-dated interest rates (5yrs and under) rallied in North America. Longer-dated rates (10yrs and over) did not benefit from the typical safe-haven rally. This could suggest that investors are demanding higher returns (yields) due to the ongoing economic and inflationary uncertainty in the current market.

Investment-grade credit spreads weakened in tandem with equities and global risk assets. U.S. IG spreads widened by +7bps, while Canadian IG spreads widened by +4bps over the month. Concerns over the state of the economy led to an underperformance of "financials"; Canadian 3yr Sr bank bail-in spreads weakened by +8bps and US IG Financials weakened by +11-15bps in March.

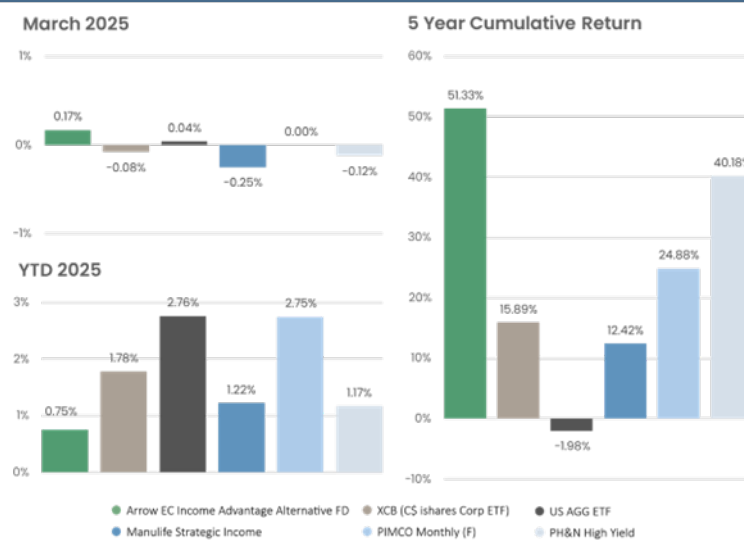
The investment team's concern about the lack of sufficient risk premium within credit markets seemed justified, as high-yield (HY) credit weakened by a significant 67bps on the month. The portfolio managers expect increasing risk premiums as further market volatility and risk aversion lead to higher-quality IG credit outperforming lower-quality HY credit.

Even with wider spreads, AECIAA investor performance, shown at right, remained strong in March relative to indices and popular fixed income funds.

With risk-off market weakness and increasing negative sentiment, investors should be analyzing how their investment assets are likely to fare in turbulent and weak markets. Below we will walk investors through fund performance in recent spread-widening environments; including, the very fast COVID-19 widening event as well as the slower 2022 spread widening period.

Fixed Income Returns¹

Morningstar: Monthly & YTD 2025 and 5yr Cumulative Returns (%)



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

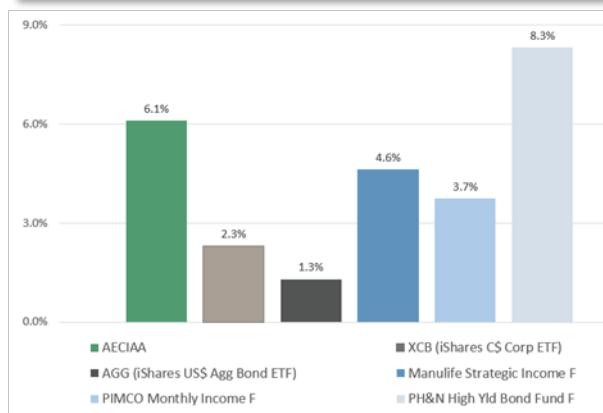
Historic Market Widening Events: Fast and Immediate Market Widening – COVID-19

C\$ 3-Yr Bank Sr. Bail-in Credit Spread (Yield %)
BMO Capital Markets



12-mos Total Return (%)¹

Morningstar: Mar 1, 2020 – Feb 28, 2021

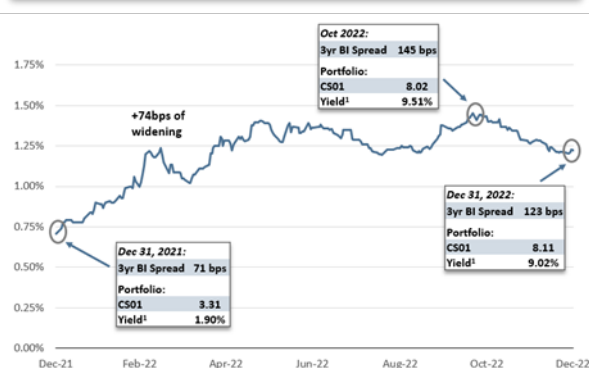


At the start of March, COVID-19 panic, and fear spread through risk markets, more than tripling credit spreads and widening by +168bps in under a month. COVID-19 is representative of a fast and immediate market widening event. The chart on the left shows 3yr Bank Sr credit spreads, with the tables highlighting the portfolio's risk at various points in time.

The performance bar chart on the right shows the 12-mos performance, starting from the beginning of the widening period. Investors can see the strategy outperformed fixed income indices and other popular fixed income strategies.

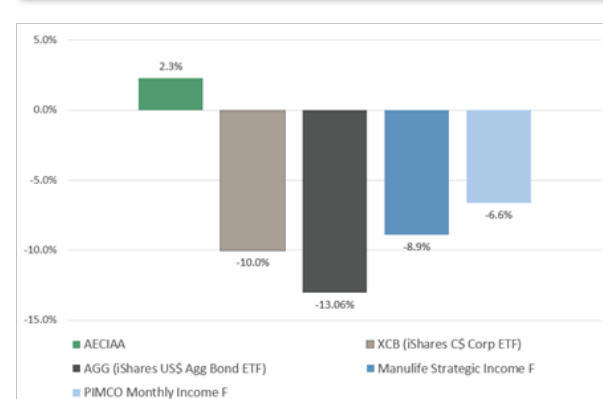
Historic Market Widening Events: Steady but Significant Market Widening – 2022

C\$ 3-Yr Bank Sr. Bail-in Credit Spread (Yield %)
BMO Capital Markets



12-mos Total Return (%)¹

Morningstar: Jan 1, 2022 – Dec 31, 2022



In 2022, spreads more than doubled, widening +74bps from the start of the year through the end of October. This period is representative of a slow and steady, yet significant, market widening event. The chart on the left shows 3yr Bank Sr credit spreads, with the tables highlighting the portfolio's risk at various points in time.

The performance bar chart on the right shows the 12-mos performance, starting from the beginning of the widening period. Investors can see the strategy outperformed all indices and popular fixed income strategies.

For investors with a minimum 12-month investment horizon, better return outcomes can be achieved as spreads widen and yields rise. Unlike equities, corporate issuers are legally obligated, as long as they remain solvent, to pay 100% of the interest and principal to their bondholders. The investment team remains focused on risk-adjusted return opportunities offered by high-quality, short-dated investment-grade assets. Having been patient over the last 6-12 months, the team is now positioned to add measured exposure as spreads continue to weaken, and high-quality investment opportunities become more attractive.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	5.92	7.16	8.64	4.78	4.11

Returns as of March 31, 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 April 2025.