Arrow Capital Management Inc.

Experience. Active Management.

EXEMPLAR PERFORMANCE FUND

MARCH 2022

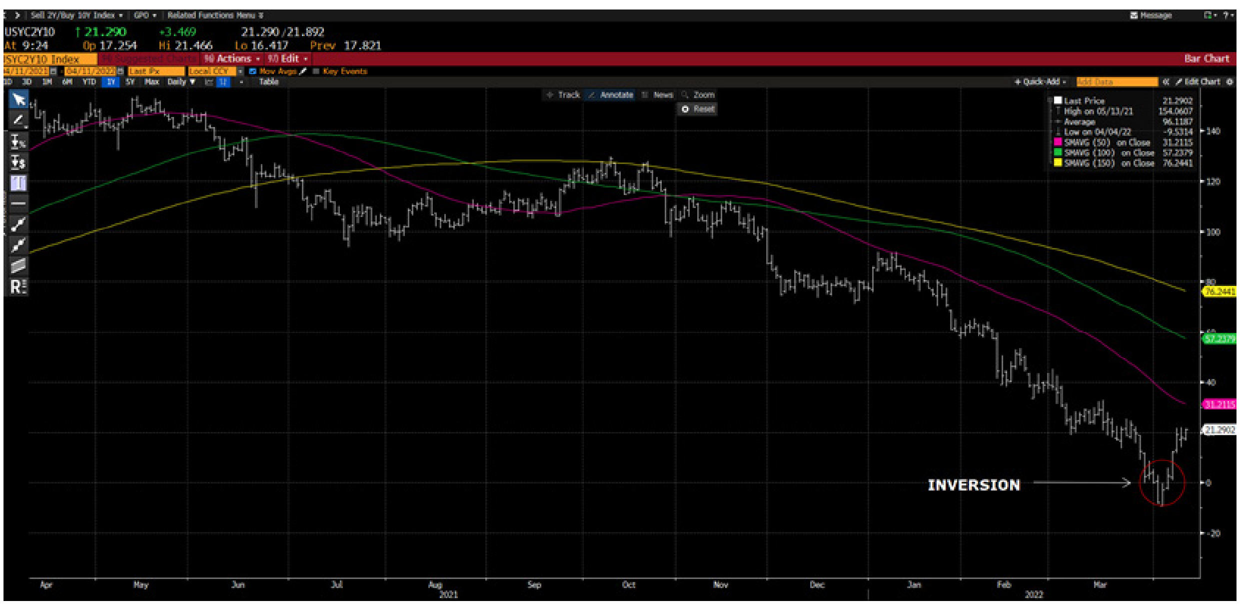
The Fund was +3.14% in March and +4.96% for the first quarter.

Historical Performance	1 yr	3 yr	5 yr	ITD
Exemplar Performance Fund Ser F	10.08	16.73	11.71	10.39

Returns as of March 31, 2022

Volatility continued through March. The S&P500 dropped over 5% in the first half of the month on lingering Ukraine fears and caution into the March Fed meeting. However, post meeting, the markets gained 10%+, pretty much in a straight line, with the index closing up 3%+ for the month. This was despite incrementally hawkish commentary from Chair Powell, and the Fed reiterating their hard line on inflation. Even more perplexing was the equity rally in the face of an inverting yield curve.

<u>2's/10's Spread</u>



Source: Bloomberg

So, how did we interpret the monthly move? It seems to us this was the classic 'sell the rumour, buy the news' event into the first live Fed meeting. Positioning and sentiment were at extreme levels, and moves were likely exacerbated by intra-month/quarter mean reversion dynamics. Albeit a violent one, we view the move in late March as a bear market rally, as the move in equities was not corroborated by important market variables such as the yield curve and bond spreads. As well, expectations are growing for more aggressive tightening, with the potential for a 50 bps move in May now pretty much becoming consensus. **Net-net, we remain cautious on the prospect of persistently high inflation and the drawdown of liquidity.**

The Fund held up relatively well amongst the volatility, and we continue to maintain a high cash position, with a premium on liquidity. Over the month, we built up our position in Agriculture stocks as the Ukraine invasion exacerbated an already tight global food situation. Similar to other commodities, we believe the Ukraine invasion shone a light on an already tight backdrop and even upon resolution, these supply/demand dynamics will continue to persist.

On specific names, it's worth mentioning that we exited IBI Group (IBG CN) this month. IBI has been a significant position in the Fund, for almost two years.

IBI is an engineering services company that was materially undervalued as the market was slow to recognize the positive change underfoot in the operations. Given its relatively small market cap and liquidity, it was easy to ignore versus the likes of WSP and Stantec, which ultimately provided an opportunity for investors like us. The company had faced historical operational issues and a stretched balance sheet, however that was well in the past and it was evident to us that the company was on its path to a successful turnaround, aided by a proprietary software division that provided hidden value in the story.

We originally bought the stock around $6/sh in mid/20 and built the name to a top 10 holding, and at times, it was our largest holding. So, why sell now? Our thinking was multiple fold:

First, we returned ~100% in less than 2 years, and although it remains under-valued relative to its competitors, some of the discount had closed, and it was no longer as cheap as it once was.

Second, part of our positive thesis on the stock was its emerging software business, which has grown to 20% of its total business. Over the past couple of quarters, the trajectory of this area has stalled a bit, and although we would not be surprised if this re-accelerates later this year, in light of the change in sentiment in Technology companies and correspondingly lower valuations, this was a new risk that had entered the fray.

Third, as we look forward to the potential market risks, we have clearly wrote about our view that recession risks are becoming more on our radar. In light of this, we are placing more scrutiny on stocks that are economically sensitive.

Finally, as we focus more on liquidity, we determined it made sense to take the gain and move on.

This provides a bit of a window into our process of both buying and selling core positions. To be clear, we would not be surprised if IBI continues to march upwards from here, however given the aforementioned risks and considerations, we are happy to move on and look for other opportunities to invest.

Thank you for your continued interest in the Fund. For further information, please contact your regional Arrow Capital Management representative.

Sincerely,

Chung Kim
Portfolio Manager
Arrow Capital Management Inc.

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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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More information about the Fund can be found on our website www.arrow-capital.com. Published April 2022.