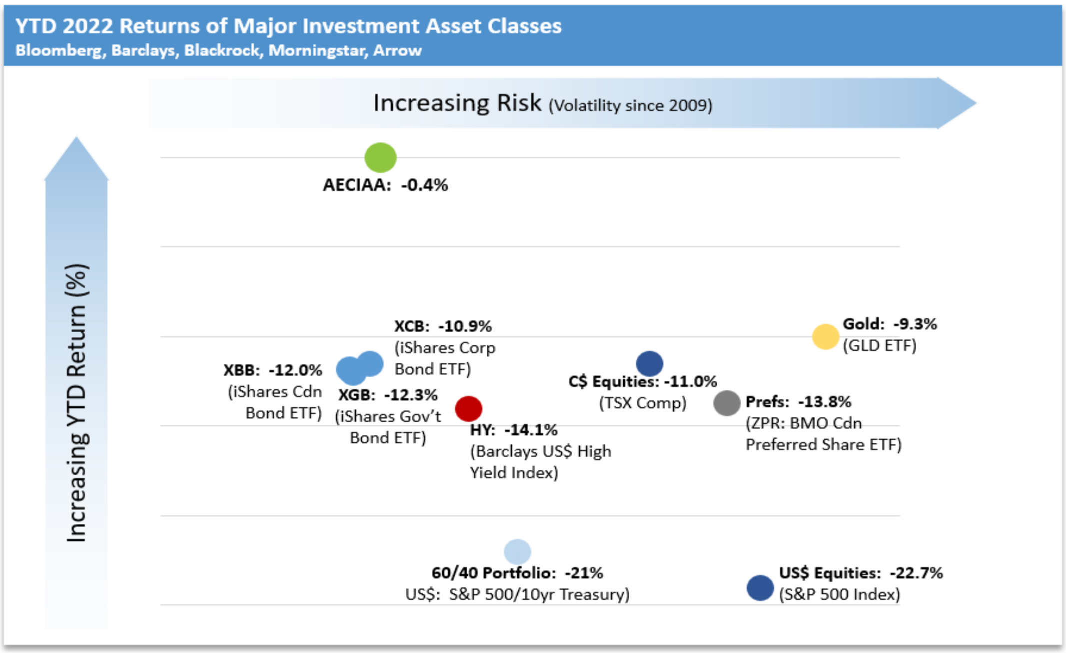
There was weakness in virtually every asset class during September – with the last week of the month proving the most destructive, as central bank and government actions around the globe continued to dominate headlines. Massive volatility and weakness in the UK Gilt (gov't bond) market, drove asset class valuations around the globe lower. Extreme volatility, especially in government bonds (often referred to as 'risk-free' assets), has caused investors to reassess their risk appetite. Equities fell around the globe, interest rates spiked, and credit spreads widened (weakened), as some investors indiscriminately liquidated holdings. Equities closed the month -7.8% in the US (S&P 500) and -4.3% in Canada (TSX Comp). US interest rates had a massive selloff with yields weaker (higher) by 40-70bps across the yield curve (10yrs +60bps) in sympathy with the UK. Canadian interest rates were relatively stable with rates only higher by 5-15bps across the curve (10yrs +6bps). Investment grade credit was a strong performer on the month, right up until the last week of September, when investors liquidated IG corporate bonds to raise cash as government bond markets became very volatile. US investment grade credit spreads were 21bps weaker (higher) on the month, with virtually all the weakness (20bps) coming in the last five trading days. Canadian investment grade credit spreads weakened (rose) 14bps on the month. The illustrative chart below aims to highlight the fact that all investment returns, regardless of their risk, have been disappointing for investors in 2022. Lower risk assets (left side of chart), including all the fixed income assets, have lost approximately -12% while higher risk assets (right side of chart), including equities, are down -11% (Cdn) to -23% (US). Gold, preferred shares, and HY are down roughly -10% and even the classic 60/40 balance portfolio is down 21% in the US. Some of these asset classes are showing the worst annual performance in decades.



WHAT HAPPENED IN LATE SEPTEMBER TO CAUSE GLOBAL MARKET DISRUPTION?

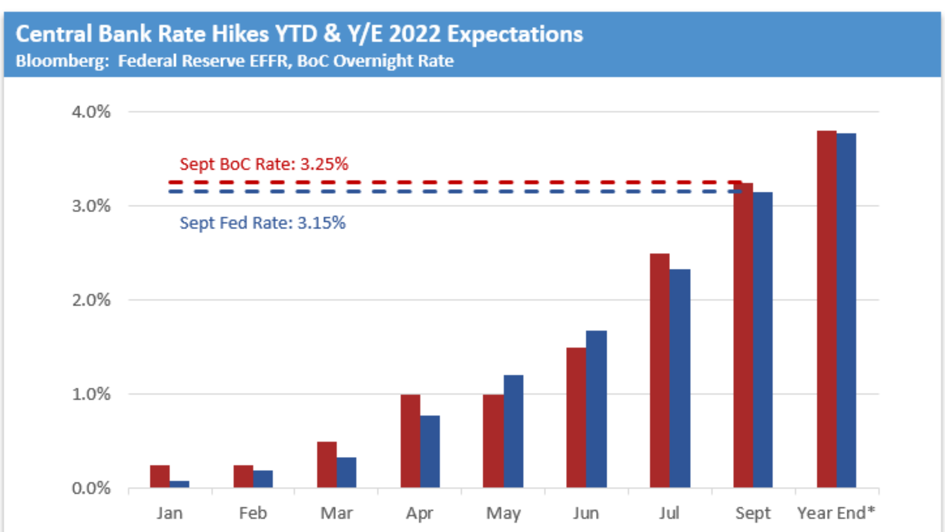
In late September, the UK government announced new fiscal policies to try and boost growth through unfunded tax cuts and spending increases. Markets reacted violently as investors immediately adjusted rate expectations, with a massive spike (sell off) in UK government bond yields (Gilts). Investors also adjusted growth expectations as the pound plummeted to all-time lows and stocks fell. The unexpected consequence of these actions was that the spike in Gilt yields (interest rates), or drop in price, triggered the need for pension funds to unwind complicated LDI (liability driven) hedges that ultimately threw longer-dated UK gov't bond prices into a tailspin. The UK central bank (BoE) was forced to intervene with the announcement of a long bond buy-back program to "restore orderly market conditions" and end the "dysfunction". To put the moves into context, long 30yr Gilt yields went from trading at a yield of 3.5% (pre fiscal policy announcement) to a high yield of 5.1% - or roughly a 35% price haircut - before settling back down to 4% post the BoE's pledge to intervene.

CENTRAL BANKS STUCK BETWEEN A ROCK AND A HARD PLACE: THEIR ACTIONS HAVE MASSIVE MARKET CONSEQUENCES

Central banks are in an unenviable position. Their swift actions post COVID-19s liquidity crisis in March 2020 took interest rates to zero and created a 'free money' era for almost two years. These actions also had a clear consequence. Inflation is arguably out of control and both the BoC and Fed have been forced to hike interest rates by over 3% (twelve 25bp hikes) since the beginning of the year. Higher interest rates have decimated fixed income assets, which have had the worst year of returns in the US thus far since 1929 (The New York Times). Equities, whose valuations are now discounted by higher interest rates, have also suffered with US markets down roughly -25%. Yet, it is the positive correlation of equities and fixed income (to the downside) in 2022, that has ravaged balanced portfolios (60/40 equity/bond) and wiped-out more than an estimated 10 trillion of American wealth. The pace of rate hikes will certainly reduce economic growth going forward.

HIGH YIELD SPREADS ARE NOT APPROPRIATELY COMPENSATING INVESTORS FOR THE RISK OF RECESSION

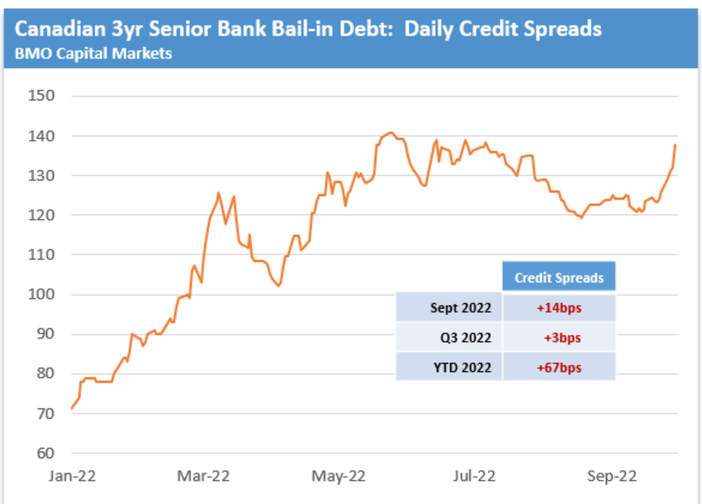
With an increasing risk of recession, our investment team cannot help but wonder why risk premiums are trading so low. As the risk of economic weakness grows, investors should be focused on high-quality, liquid assets rather than reaching for yield in lower credit quality (ie. high yield/junk bonds) or less liquid assets (ie. private debt and loans). The chart at right shows high yield risk premium, which is the additional yield above investment grade yield that investors demand to be exposed to high yield issuers. While the premium has risen in recent weeks, current risk premiums (red circle) are still much lower than one would expect in light of 2022's equity weakness and in a market that is anticipating a recession. Current premiums remain below the 25yr average return and are well below peak risk premiums (orange circles) that were demanded during all previous recessions, highlighted by the orange bars. Our PMs believe investment grade credit offers a much more compelling risk/return profile than high yield.

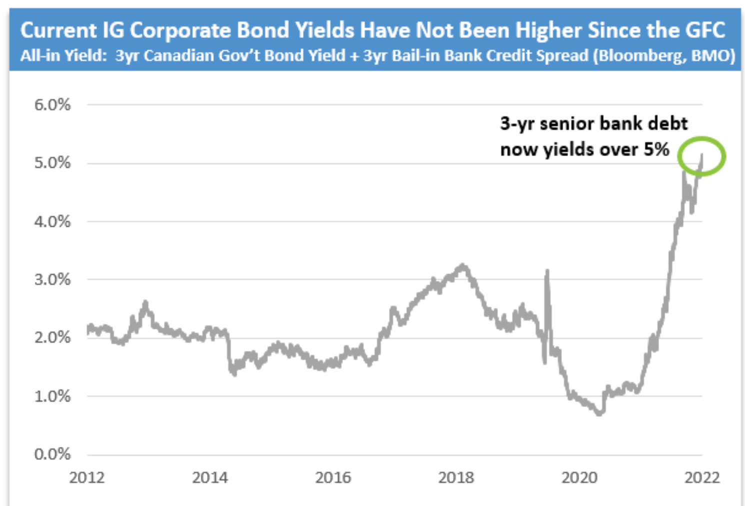


Central bank rhetoric remains focused on 'inflation fighting', but the ability for the central banks to continue skirting around the consequences of hiking has passed. There appears to no longer be a 'soft landing' option for them and the UK disaster in September acts as a stark warning to the other central banks around the globe currently hiking rates to tame inflation. Powell has recently stated that the Fed's inflation target is "unconditional", further signaling that the fight against rising inflation will "bring some pain" to Americans in the form of an economic slowdown/recession. The question is whether the Fed and BoC will have the stomach lining to hike to the true magnitude required to get inflation under control. Most think they will halt hikes earlier than necessary if greater cracks in the economy's foundation surface. Sadly, the UK proved that governments will not be able to just spend their way out of the current politically unpopular environment.

INVESTMENT GRADE CREDIT HAS CHEAPENED SIGNIFICANTLY

While investment grade credit has significantly outperformed interest rates in 2022; high-quality credit has still cheapened significantly and represents a good investment opportunity. The chart below left shows credit spread of Canadian 3yr senior bank debt (bail in) since Jan 1st. Spreads weakened 14bps in September, and investors can see the dramatic widening at the very end of September, as IG credit spreads followed all assets weaker post the UK market meltdown. On the quarter, 3yr Bank credit spreads are only slightly wider; however, the 67bps of weakening has almost doubled the level of spread (yield) investors receive for holding IG credit as compared to the start of the year. IG corporate bonds are made up of two components: the 'risk-free' government interest rate and the additional credit spread (or yield) that is demanded by investors as compensation for purchasing the corporation's debt over that of the 'risk-free' exposure. While our strategy isolates just the credit spread portion, all fund managers must buy the whole corporate bond. This means, the total of rates yield + credit spread yield (also referred to as the all-in yield) of IG corporate bonds is the key pricing metric. The chart below right is the all-in yield of a 3yr bank senior bail-in bond which illustrates the massive cheapening, or spike, in yields. The same 3yr bank senior bond paid investors only 0.7% in early 2021 and now pays investors an all-in yield of 5.1%. This all-in yield, now above 5%, should be very attractive to investors who can now achieve a 5% return annually by holding this senior bank bond for three years. These elevated yield levels should continue to be highly supportive for credit spreads.





CANADIAN INVESTMENT GRADE CREDIT: OFFERS BETTER VALUE THAN HIGH YIELD AT CURRENT LEVELS

IG credit spreads have rarely been weaker than current levels, which remain extremely cheap relative to levels experienced over the last two decades. The chart below left shows the Canadian IG credit spread over the last decade and includes the 20yr historic average (blue dotted line) to give even more perspective on rich/cheap analysis. Investment grade credit spreads remain much wider (weaker) than the 20yr average spread and, in fact, have rarely traded wider (cheaper) in the last decade. Compare this to the high yield historic spreads (chart below right) whereby current levels have started to weaken; yet still remain more expensive than the 20yr average and have traded much wider (cheaper) for more extended periods in the last decade.

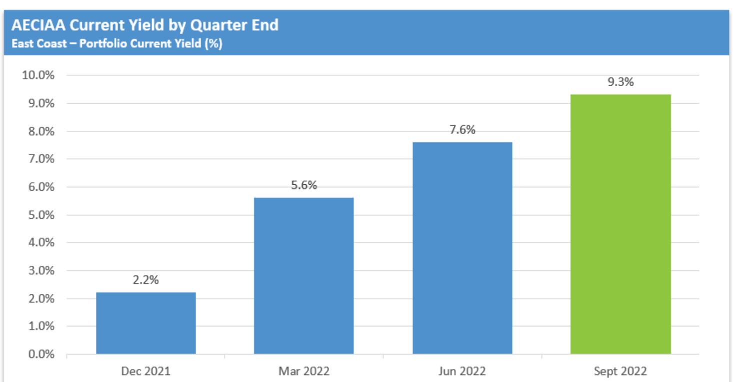
Our investment team does not believe high yield spreads appropriately compensate investors for the added risk associated with owning sub-investment grade (junk) rated debt. The credit quality of investments never matters more than during periods of market stress and economic weakness, as default risk increases substantially during these times. This begs the question: Why aren't investors demanding a higher return (yield) to compensate for this risk? Clearly, within IG, investors want greater compensation (yield), even though history has shown the chance of default is extremely low. The HY market needs to weaken to better reflect the increased risks present in today's market.

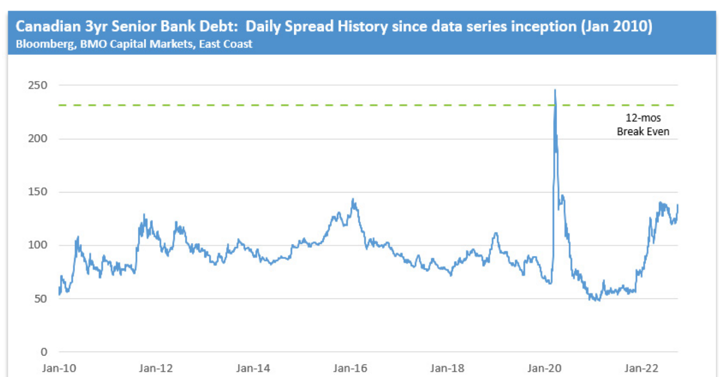
HIGH PORTFOLIO YIELDS HELPS PROTECT INVESTORS AGAINST CAPITAL LOSSES

One of the main reasons fixed income investments have been hit so hard was due to the extremely low (lowest ever) levels of interest rates post the COVID-19 liquidity crisis in March 2020. We have the central banks around the world to thank for that situation. They acted swiftly and aggressively to drop interest rates to zero to prevent a massive global economic and financial markets apocalypse situation. While bold and necessary at the time, the result of these actions has been rampant inflation. Providing the planet with ‘free money’, when borrowing costs were the lowest ever on record, during a period when much manufacturing and supply chain logistics had ceased, led demand to far outstrip available supply. As prices crept up, central banks kept hoping it would be transitory and go away on its own. It did not, and central banks have had to pivot the other way to fight inflation by acting swiftly and aggressively to raise (hike) interest rates.

The explanation above aims to remind investors of the direct losses associated with a yield increase on a fixed income investment, but also to highlight the positive financial impact of having a significant yield “buffer” within your investments. As the chart below left shows, from the start of the year, AECIAA investors have witnessed portfolio yields increase from 2.2% to 9.3%. One would expect investors to have suffered more sizeable losses; however, there are two reasons this drastic rise in portfolio yield has had a very limited investor impact. First, the investment team was very bearish in the second half of 2021 and had actively positioned the portfolio for market weakness. In our strategy’s 13yr history, we had never been more conservatively positioned than we were in the Fall of 2021. This significantly limited losses.

Second, as the portfolio yield increases, so does the “buffer”. Once we became more bullish and started positioning the portfolio more aggressively (Spring 2022), moderate losses from credit spread widening (weakening) could be offset by this higher yield. Our investors now have the benefit of a 9.3% current yield “buffer” within the portfolio, derived from high-quality, investment grade corporate credit. But how much can spreads widen before our investors expected yield return (9.3%) is impacted? This value is called the Break-Even (B/E) – and represents the level of spread widening that the portfolio could sustain over the next year, without suffering a loss at the end of the 12-mos period. The chart below right illustrates the current yield “buffer”. Spreads could weaken to the green dotted line - almost COVID-19 wides - and investors could expect to be flat (B/E) after the 12-mos period.





With so much uncertainty, we expect there to be continued volatility in financial markets. Historically wide (cheap) IG credit spreads, the huge spike in all-in corporate bond yields, and tight HY risk premium suggest IG credit spreads will outperform. Historically, our strategy has achieved outsized positive returns following episodes of extreme widening (cheapening) of IG credit. We are excited about the current level of IG credit spreads and the elevated yield that is currently provided by the strategy. While it is unlikely, but not impossible, that we see a straight-line rally to tighter spreads, we remain convinced that investors with a 12-18mos investment time horizon will be generously rewarded for owning our high-quality investment grade credit spread strategy.

Historical Performance	1 yr	3 yr	5 yr	ITD
Arrow EC Income Advantage Alternative FD	-0.57	2.98	3.38	3.03
East Coast Investment Grade II Fund Cl F	-0.40	5.67	6.13	5.36

Returns as of September 30, 2022

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. The inception date of the East Coast Investment Grade II Fund is April 1, 2013.

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. Offering of securities in the East Coast Investment Grade II Fund are made pursuant to a Confidential Offering Memorandum (OM) only to those investors who meet certain eligibility or minimum purchase requirements. Important information, including this fund's fundamental investment objective is contained in the OM which may be obtained from Arrow Capital Management Inc. Please read the OM 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.

This document is provided as a general source of information and should not be considered personal, legal, accounting, tax or investment advice, or construed as an endorsement or recommendation of any entity or security discussed. Every effort has been made to ensure that the material contained in this document is accurate at the time of publication. Market conditions may change which may impact the information contained in this document. All charts and illustrations in this document are for illustrative pur¬poses only. They are not intended to predict or project investment results. Individuals should seek the advice of professionals, as appropriate, regarding any particular investment. Investors should consult their professional advisors prior to implementing any changes to their investment strategies.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what Arrow Capital Management, our sub-advisor East Coast Asset Management, and the portfolio manager believe to be reasonable assumptions, neither Arrow Capital Management nor East Coast Asset Management nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not un¬dertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

The comparison presented is intended to illustrate the historical performance of Arrow EC Income Advantage Alternative Fund and East Coast Investment Grade II Fund (the "Funds") 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 2022.