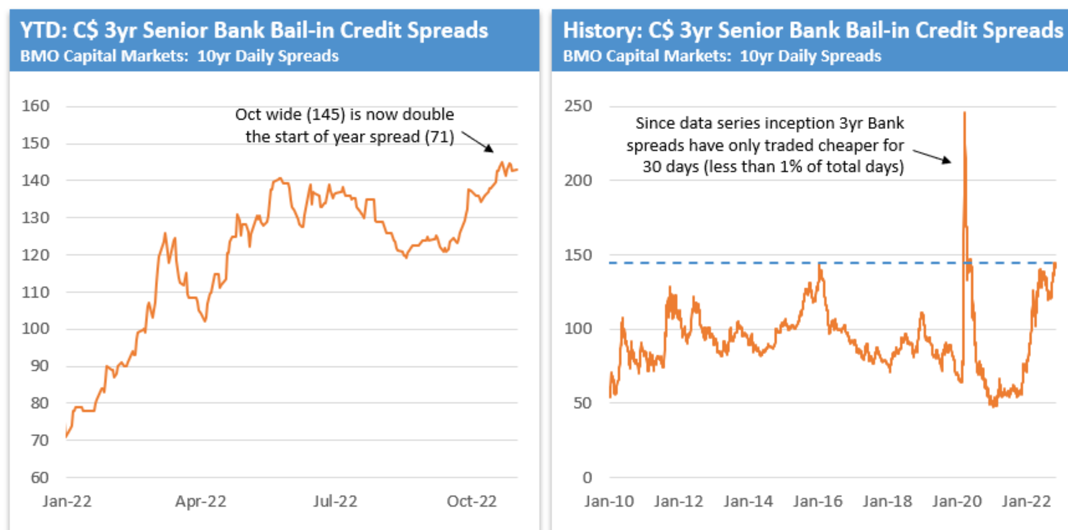
After sizeable year to date losses, equity markets finally saw a little reprieve. October was a volatile one (again); however, US Equities were up 8.1% (S&P 500) and Canadian equities were up 5.6% (TSX Comp) by the end of the month. There was no one clear driver of the rally but the near 10% loss (S&P 500) in September clearly attracted some bargain hunters. While earning results in the month were not stellar, expectations had been much worse, so with 69% of companies beating expectations, the market took it as a positive sign. Lastly, some poor data releases in the month gave the equity market hope that the Fed may start to ease up on it's aggressive hiking schedule come the new year.

Interest rates still appear to be the most volatile asset class, with 10yr government bonds trading in a wide 55-60bp yield range on the month in both Canada and the US. That said, US treasuries ended the month much weaker with US 10yr TSY yields weaker (higher) by +26bps and CA 10yr GoC yields weaker (higher) by a more modest +8bps by end of October.

US IG credit spreads weakened 5-10bps through mid-month but rallied back to unchanged by end of October. With Canadian bank year end on Oct 31st, there is typically less bond trading in the bank's last couple weeks of their year (final weeks of October). This drop in trading liquidity combined with less rates weakness in Canada (meaning all-in yields of corporate bonds didn't cheapen in Canada as much as they did in the US) meant Canadian IG credit spreads were unable to recoup all the mid-month weakening and closed wider by +6bps on the month.

WE BELIEVE THE OPPORTUNITY IN IG CREDIT HAS ONLY BEEN GREATER DURING THE GFC AND A VERY BRIEF PERIOD DURING COVID-19

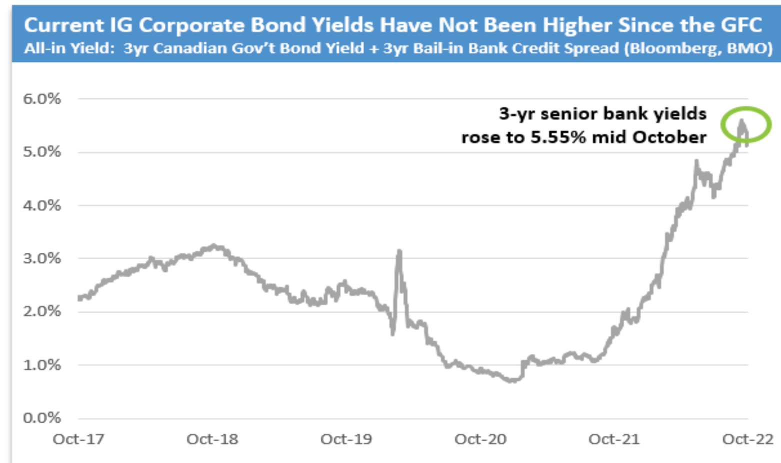
October's credit spread widening has weakened Canadian investment grade (IG) credit spreads to levels not seen outside periods of crisis. The charts below show the daily Canadian 3yr Senior bank bail-in credit spread movement. The chart below left highlights the extreme weakening (widening) that has occurred in bank spreads – arguably among the most liquid and highest quality issuers within the Canadian credit space – since the start of 2022, including the additional +6bps of weakening in October. Short-dated bank credit spreads have now doubled since levels they were trading at the start the year. As investors know, our portfolios had their lowest risk exposure on record in late 2021 as we believed spreads were too expensive (trading too low). Throughout Q2 and Q3 we have increased risk significantly as we believe credit spreads are now cheap, offering investors extremely high value (yield) for such high-quality IG exposure. Even more compelling than the YTD cheapening of spreads is the chart below right which clearly shows bank 3yr spreads have only traded cheaper (wider) during a brief period during the COVID-19 liquidity crisis. This data series only goes back to Jan 2010 but if we used the old Canadian bank deposit note (senior ranked) spreads as a proxy, the only other period of Senior bank spreads trading this cheaply was during the GFC.



WE BELIEVE IG CREDIT REMAINS A SAFE INVESTMENT IN THIS TIME OF VOLATILTY AND WEAKNESS

Some investors may be saying "okay, I get it, credit spreads are cheap….but so are equities". It is true. Virtually all asset classes have weakened dramatically in 2022; however, as a reminder, corporate bonds have an agreed upon payment (maturity) date, as well as an agreed upon coupon which is paid to investors on a semi-annual basis. Investors provide a loan to the issuer rather than own a part of the company in the case of equities. Bonds represent a direct, legal obligation that must be paid back by the issuers. It is not optional – if the company is not bankrupt, investors will receive their money. If an equity goes down, something needs to occur for it to rally back and for investors to recoup their investment. It is a different concept in the corporate bond market where growth prospects do not matter, only solvency, in order to recoup your investment. While investors can see a very small consequence of the weakening market value of the portfolio in their statements this year, even these are not permanent losses. They merely reflect a mark to market of our portfolio holdings – which currently have an average life (maturity) of 2.4yrs and average credit rating of A-. Barring default, all our bond holdings will make investors whole at maturity – they pay the original expected yield (return) in addition to making up any mark to market losses along the way, as issuers must pay us back in full.

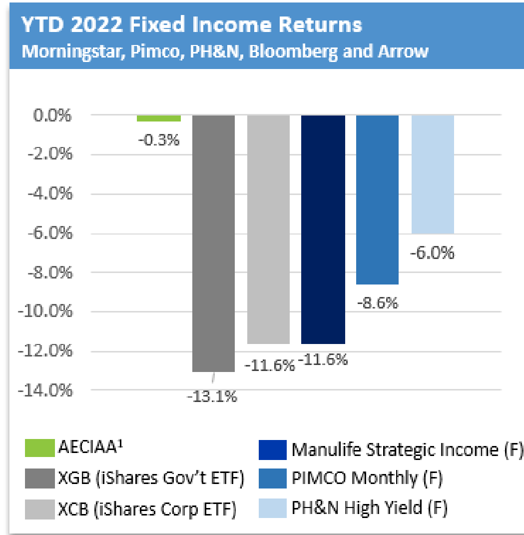
Corporate bonds are made up of two components: the 'risk-free' government interest rate and the additional credit spread (or yield) that is demanded by investors as compensation for purchasing the corporation's debt over that of the 'risk-free' exposure. All fund managers must purchase this whole corporate bond and while our strategy is unique in that it hedges rates to isolate credit spreads, the underlying asset is also whole corporate bonds. The chart at right shows the all-in yield of a Canadian 3yr senior bank bail-in bond that we noted last month had finally risen to over 5%. You can see the all-in yield jumped even higher in mid-October, reaching over 5.5%. This same 3yr bank senior bond paid investors an all-in yield of only 0.7% in early 2021. The interest rate sell off (GoC yield spike) has driven 80% of the yield increase (sell off) of Canadian 3yr senior bank bail-in bond yields. AECIAA investors' capital was exposed to only the less pronounced weakening of the credit spread portion. We believe there will be demand for IG corporate bonds at these elevated yields and we continue to limit exposure to the more volatile and uncertain interest rate portion.

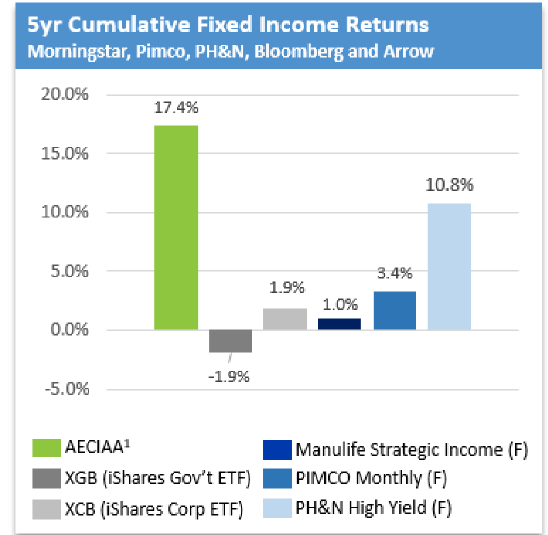


The spike in bond yields this year has been especially painful for fixed income portfolios and more broadly for investor portfolios, given the bond weakness has coincided with carnage in the equity market YTD. Our investment team has been talking for over a year about our concern of increased positive correlation, likely to the downside, between equities and fixed income. In the May 2021 investor update, we noted: "whether it's inflation or removal of QE, there are a few market scenarios that would see yields move higher and equity markets trade weaker (positive correlation) on a more sustained basis". This positive correlation has happened with significance and the downside effects proved extremely difficult for investors.

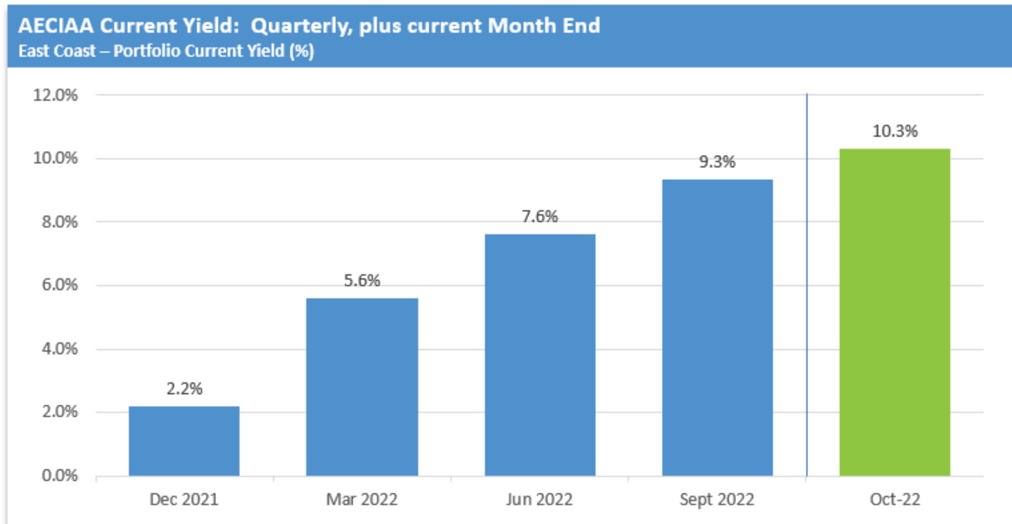
In late 2021 we were very bearish and believed markets were overvalued, thus choosing to position the portfolio with the least amount of risk in our 13yr history. This served two purposes: to protect investor capital if things weakened like we expected, and to allow us the ability to add risk exposure for investors when better opportunities presented. YTD 2022 return chart next page at right shows the investment team's view, and portfolio positioning, did protect investor capital. The indices and largest fixed income funds did not fare as well. We are now bullish, having added risk, and believe current levels represent one of the best risk-adjusted return opportunities over the last two decades. Our five-year return chart (far right) highlights our investment team's ability to actively position the portfolio during various stages of the credit

cycle and serves as a reminder that it is not necessary for investors to worry about perfectly timing their investment in the strategy.





Weaker (wider) credit spreads in October have further improved investor opportunity via increased portfolio yields within our portfolio. The chart below shows the 10.3% current yield at end of October, which represents a 1.0% increase over last month. As we mentioned over the last few months, the high portfolio yield acts as a "buffer" to help protect against further credit spread weakness. October showed this in action – Canadian IG credit spreads weakened (widened) by +6bps – yet investors actually made a small amount. This is due to the high current yield that compensates investors even when credit spreads are unchanged. If weakening is modest, like it was in October, the portfolio's current yield can offset the mark to market losses sustained from credit spread weakness. As central bank intervention slows, interest rate volatility will also be reduced, which should be supportive for high-quality, IG corporate credit spreads. While there will likely be some continued volatility into the new year, credit spreads remain cheap (wide) and our extremely high current yield provides a substantial buffer. The investment team remains extremely optimistic about return potential over the next 12mos.



Historical Performance	1 yr	3 yr	5 yr	ITD
Arrow EC Income Advantage Alternative FD	-0.33	2.90	3.26	3.02
East Coast Investment Grade II Fund Cl F	-0.17	5.53	5.89	5.33

Returns as of October 31, 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.

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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 November 2022.