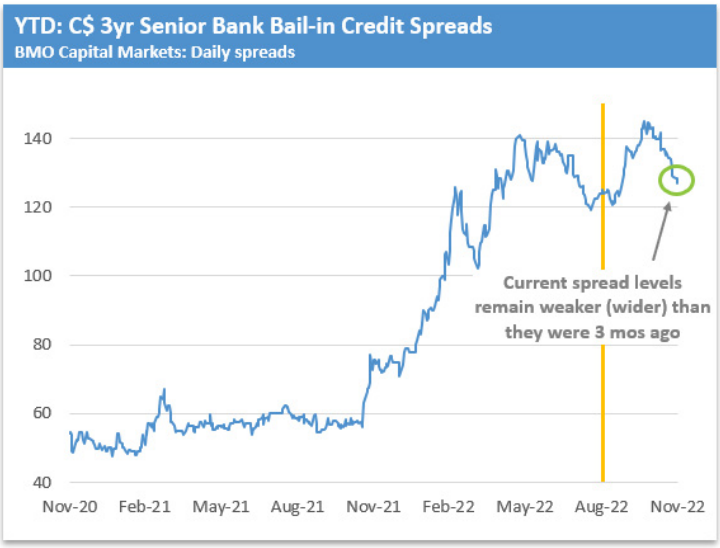
Once again, all eyes were on inflation and central bankers; however, this month there were two key differences. For starters, October CPI came in lighter than anticipated and sparked a rally in rates as the market pared-down future rate hike expectations, including a reduction from 75bps to 50bps in December. Risk markets also staged a relief rally as lower interest rates are a positive for equities. Secondly, FED rhetoric at month end didn't caution markets or push back against this narrative which cemented the reduction in expected hikes and was overall supportive for markets. Powell did caution that policy is likely to stay restrictive for some time until further progress is made on price stability (inflation). He also acknowledged the risks associated with overtightening and his overall tone was in sharp contrast to the hawkish skew and subsequent risk off/rates higher (weaker) tone from the last FOMC press conference. By the end of November, US (S&P 500) and Canadian (TSX Comp) equities closed stronger by approximately +5.5%. Canadian IG credit spreads rallied a strong 14bps but could not keep up with the significant 23bps of tightening (rally) witnessed in the US IG credit spread market.

SIGNIFICANT CURVE FLATTENING IN NOVEMBER SEES CANADIAN 2s-10s CURVE INVERT TO EXTREME LEVELS

High inflation over the last 12-18mos has prompted central banks around the globe to quickly and aggressively raise interest rates. The hiking by major central banks resulted in inverted bond yield curves in both Canada and the US. These front-loaded and ambitious hikes led to significant market volatility and the resulting inverted yield curves were the markets signal that it believes central bank actions will result in an economic recession. Given the central bank's apparent shift in policy this month, it was no surprise interest rate yields rallied (moved lower); however, it may have surprised some investors that the rally was predominately in longer-dated rates. Short-dated Canadian interest rates (2yrs) barely moved while 10yrs rallied a sizeable 31bps in Canada and 44bps in the US. Currently, 2yr rates are trading near CB overnight rates and appear quite anchored. While overnight rates are expected to rise further with additional hikes through Q1 2023, the market has priced in sizeable central bank rate cuts in the back half of 2023. After another 30bps of GoC 2s-10s curve flattening in November, the 2s-10s rate yield curve in Canada is the most inverted it has been in over 30 years (as the chart at right highlights). This inversion, which typically is indicative of a looming recession, also leads our team to expect continued volatility in both rates and equities as some very fundamental questions remain. Will central banks hike enough? Will they stop too soon and will inflation spike again? Will they hike too much for the economy to handle? A lot of uncertainty exists in the market and uncertainty typically breeds volatility.

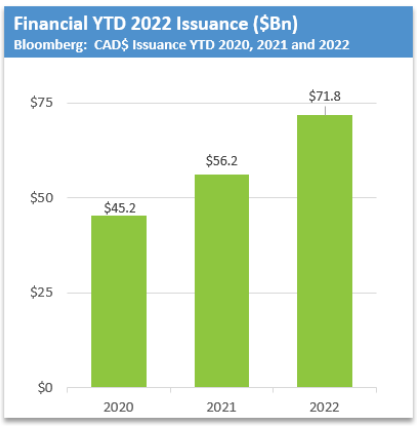
CANADIAN IG CREDIT SPREADS HAVE JUST STARTED THEIR RALLY (TIGHTENING) IN NOVEMBER



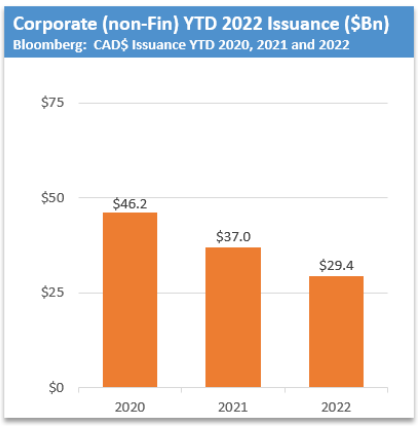
After continued weakness in 2022, Canadian IG credit spreads staged a strong 14bp rally (tighter) in November. While Canadian spreads underperformed the impressive 23bps rally in the US, our investment team is happy for our investors to continue clipping the higher yield available in Canadian investment grade credit, relative to US levels. IG credit spreads have only begun to scratch the surface in terms of performance. The chart at left shows 3yr Canadian senior bank bail-in credit spreads and highlights the extent of the weakening (spreads higher/prices lower) that has occurred in high-quality investment grade credit over the last two years. In late 2020 3yr senior bank spreads were trading at roughly 50bps. Even with the nice rally (spreads lower/prices higher) in November, bank spreads ended the month at 127bps, which is 2.5x the spread the same bond offered a mere 2yrs ago. Considering the prior three-month period,

spreads currently remain weaker now (green circle) compared to where they started the period (orange line) in August.

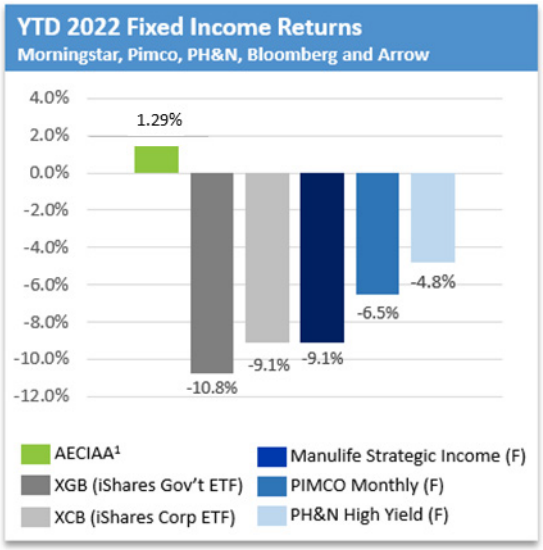
Many investors considering additional subscriptions have been asking if they missed the boat after such a strong return in November. We hope the chart at left effectively highlights that November is just the tip of the iceberg in terms of how much further opportunity remains in Canadian IG credit spreads. We are still nowhere near the levels of 2yrs ago, and a paced return to tighter spreads, with some added volatility, is viewed as the most likely outcome by the investment team.

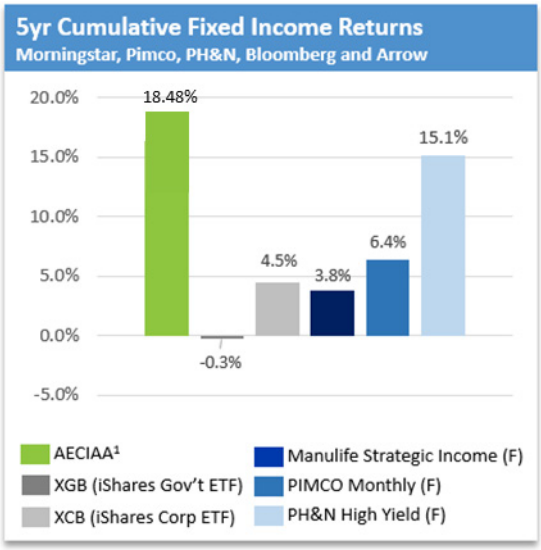


One of the main reasons we believe Canadian credit spreads didn't have the same magnitude of performance seen in the US was due to the large amount of CAD$ corporate bond issuance. Financial supply, dominated by big 6 bank new issues, is up drastically in 2022 YTD (chart at left); however corporate (non-financial) supply has lagged (chart at right). In November, we saw a slew of new issues from corporate (non-financial) issuers who originate debt infrequently – these are companies who do not have an active debt issuance program that requires the issuance of bonds on a regular basis. This was very helpful for our investment team who used the supply, which came at a discount to market value, to add risk out the curve vs selling some our shorter-dated positions. These new issue deals performed extremely well with corporate spreads tightening (rallying) sharply after the supply cleared. The PMs took some profit on these trades and our risk (credit exposure) closed the month slightly lower than in October.

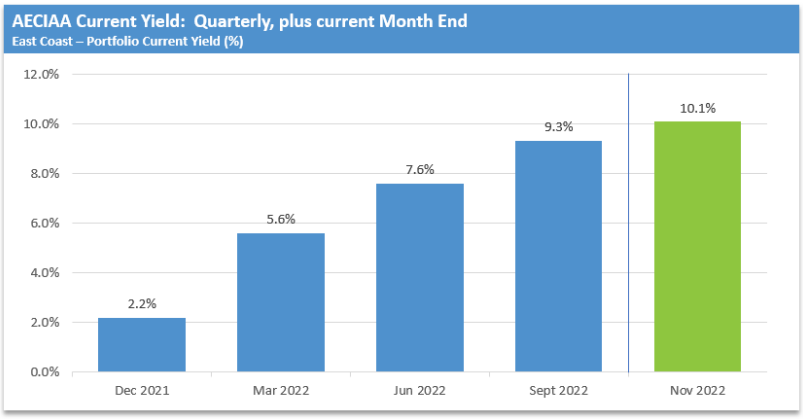


There was what felt like a sea change in risk sentiment within financial markets during November. Rates rallied, equities rallied, credit spreads (both IG and HY) rallied. As such, most funds had a good month in November; however, fixed income is still severely in the red on a year-to-date basis. The chart below left highlights our return relative to both the main bond indices (grey shades) and some of the largest fixed income funds (blue shades). Our strategy's outperformance has not just dominated during a bearish market environment (YTD 2022), but our flexible mandate has allowed our investment team to effectively position the fund in both bullish and bearish market environments, as the 5-year performance chart below right indicates. Our 5-year cumulative returns are over a highly volatile market environment, which included very bearish periods (including COVID-19) and very bullish periods (spreads traded at post-GFC tights in mid-late 2021). Our investment team's active portfolio management aims to remove an investors need to try and market time an investment in our strategy by reducing exposure when returns are likely to be poor and increasing exposure when opportunities are more available.





Even with a good rally in credit spreads and the resulting strong strategy performance in November, our portfolio current yield remains extremely high. This is a big win for investors who will continue to receive the benefit of this yield both in terms of return potential and a protection against spread volatility. With our expectations for continued volatility, the current portfolio positioning should return investors around 0.85% a month if spreads are unchanged. This "return buffer' will be able to absorb moderate spread weakness (widening) if we do have a pull back. Conversely, any further rally in credit spreads is a positive return in addition to this expected portfolio yield return. After very defensive positioning in late 2021/early 2022, our current aggressive portfolio positioning was actively constructed to capture positive return for investors as credit spreads start to normalize (rally). Market dynamics continue to be very strong for potential future credit returns.



Our investment team aims to provide investors with the best possible risk-adjusted return opportunity within the fixed income market. While the move tighter (rally) to more normal spread levels won't likely be a straight line, we continue to remain focused on high-quality, lower volatility, investment grade credit. The team remains extremely optimistic about return potential over the next 12mos and is actively trading every single day to try and capture the best return per unit of risk that is available for investors.

Historical Performance	1 yr	3 yr	5 yr	ITD
Arrow EC Income Advantage Alternative FD	1.27	3.20	3.45	3.15
East Coast Investment Grade II Fund Cl F	2.27	6.12	6.17	5.55

Returns as of November 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.

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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 December 2022.