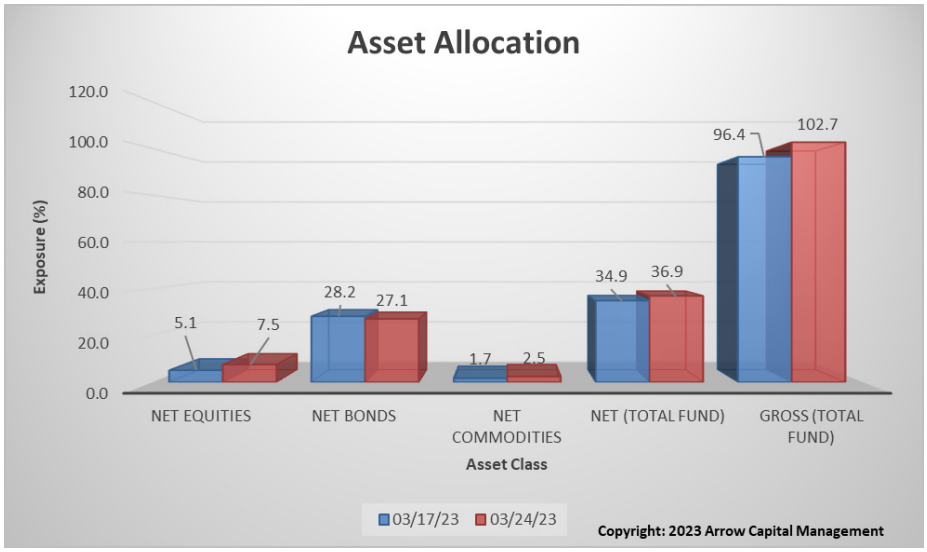


Weekly performance, macro context, current positioning, and future expectations.

Performance
March 24, 2023

Arrow Canadian Advantage Alternative Class (F Class):
WTD 0.27%
MTD 0.67%
YTD -0.98%

S&P TSX Composite
WTD 0.59%
MTD -3.56%
YTD 0.60%

S&P 500:
WTD 1.39%
MTD 0.02%
YTD 3.42%

Fund Commentary
The Fund was up slightly for the week as global stock markets – especially the Nasdaq – kept their winning streak alive. The FED went ahead and raised 25bps while the regional banking situation remained murky at best. By the weekend though the "run" on smaller/regional banks was abating and we had a buyer for SVB – phew – contagion over and out. Small banks lost deposits and big banks won deposits but the real winners were the money market funds as the FED makes the trade out of deposits easier – ultimately this is not good news for any bank or their NIMs. If we are through the worst of it, the yield curve inversion should begin to hook back up again as the 2yr reclaims its rise post the massive STIR de-leveraging that has gone on and gold should take a back seat.

Our view remains the same – equities are far too expensive as earnings remain set to fall (analysts have SPX earnings moving higher here after a modest pull back – just crazy IMO). This week is fairly light on earnings (LULU and a few other retailers) but we do have the JP Morgan Hedged Equity Fund (JHEQX) to deal with. For those not aware, there is a YUGE fund that uses OTM calls and puts on the SPX to "mitigate" large drawdowns and resets these options each

quarter-end. Given the sheer size, the dealer community is often either buying or selling large volumes to "hedge" their positions to facilitate this trade which can cause abnormal volatility around quarter-ends. In the grand scheme of things this ends up being of little consequence but not being aware of the positioning can lead one to incorrect reasoning for market moves during the last week of a quarter. This is somewhat analogous to the massive unwind we have seen in the past few weeks in the 2 yr UST market where hedge funds / CTA's / risk parity funds etc. were all leaning far to aggressively and collectively one way which caused a stampede to cover all at the same time. The massive move was not a sign necessarily of recession being priced in but rather a clown show of "group stink" being unwound. Market positioning is becoming increasingly important. So today we can see the S&P 7 (MSFT/NFLX/AAPL…) outperforming the S&P 500 equal weight as everyone rushes into the most liquid, least stressed (from a financial leverage standpoint) companies in the world. Of course should we have a recession, these 7 will be hammered not only because the cycle trumps the secular but also because they are the de facto liquidity in the marketplace. Finally, as this is quarter end, we will also get rebalancing likely away from bonds and into equities. Never a dull moment.

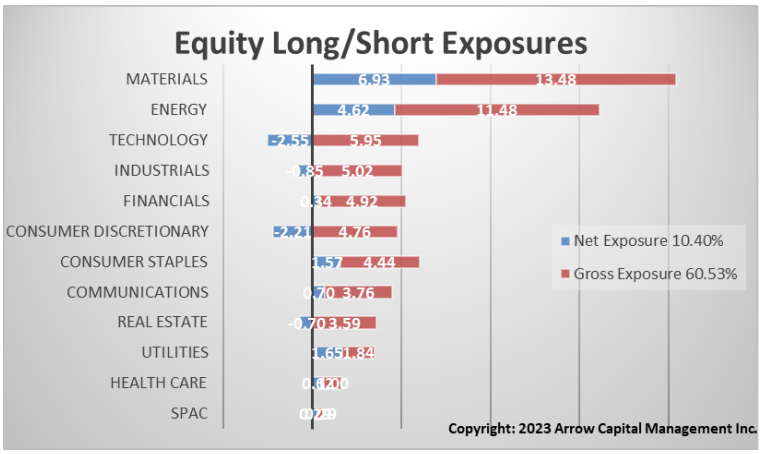
While the "liquidity" phase of the bear market may be in check, the credit part of the cycle has yet to play out. This will take time we believe but like everyone we are watching the data. Each week that passes brings our "refinancing" economy down a notch as debt matures and is rolled over. The weakest link may have been the regional banks (who knows) but we doubt lending in general is set to turn up. Still elevated post pandemic savings (consumer / business) and stronger nominal activity remains the key but is also inflecting lower. This week we get US PCE and European CPI.

Geographic Equity Exposures (% Total Portfolio including Futures)

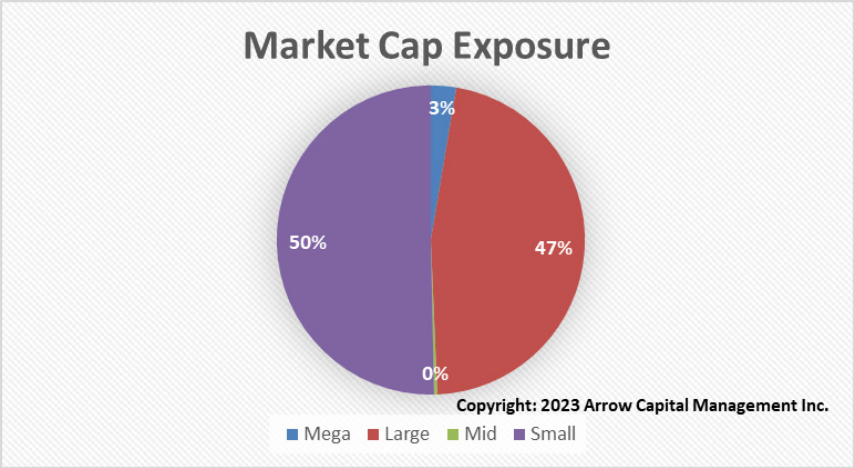
ASSET ALLOCATION	NET	GROSS	LONG	SHORT
US	-3.5	35.2	15.8	-19.4
Canada	10.4	33.1	21.7	-11.3
Rest of World	0.7	2.0	1.3	-0.7
Equities Total	**7.5**	**70.2**	**38.9**	**-31.4**
Bonds	27.1	29.8	28.4	-1.4
Commodities	2.4	2.4	2.4	0.0
Total	**37.0**	**102.5**	**69.8**	**-32.7**

Net equity exposure was increased from 5.1% to 7.5%.
Canada net exposure was unchanged.
US net exposure was increased from -5.7% to -3.5%.
Rest of World net exposure was increased by 0.3%.
Net bond exposure was reduced by 1.1%.
Net commodity exposure was increased by 0.7%.
Total fund gross exposure was increased by 6.1%. Total fund net exposure was increased by 2.1%.

Sector Exposures (% Long / Short Portfolio of individual companies)



Market Cap Breakdown



FX Exposures:

FX EXPOSURE	%
CAD	68.0
USD	28.8
Other	3.3
DXY	0.0
Total Fund	**100.0%**

As a reminder, we view foreign exchange as active "bets" that are used to either generate alpha or act as a hedge to the overall portfolio. The Fund's reference currency (except for the USD class) is the Canadian dollar so any exposures other 100% Canadian dollars are considered "active" positions.

CAD was reduced by 1.6%. USD was increased by 0.2%. Other was increased by 1.4%.

We look forward to reporting back next week.
Thanks,
Arrow Investment Team

Historical Performance – As of February 28, 2023

	1-Year	3-Year	5-Year	10-Year
ACAA - Series F	-0.35%	14.05%	10.45%	9.50%

Published March 27, 2023

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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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The comparison presented is intended to illustrate the historical performance of the Fund as compared with the historical performance of a widely quoted market index or a weighted blend of widely quoted market indices or other investments. There are various important differences that may exist between the Fund and the stated indices or other investments 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.

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