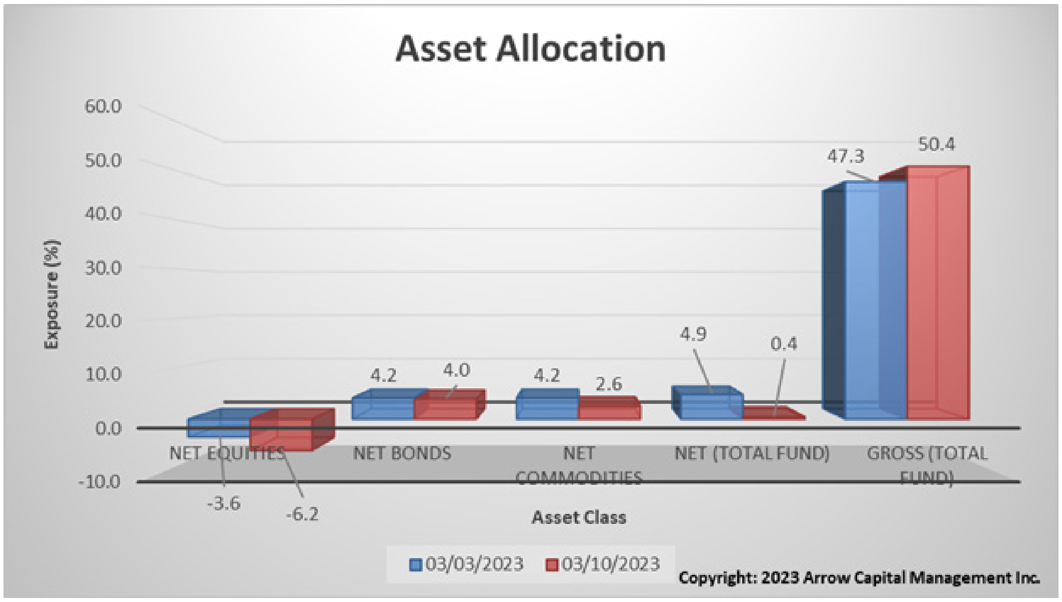


Weekly performance, macro context, current positioning, and future expectations.

Performance
March 10, 2023

Arrow Global Advantage Alternative Class (Series F):
WTD 1.07%
MTD 1.21%
YTD 0.08%

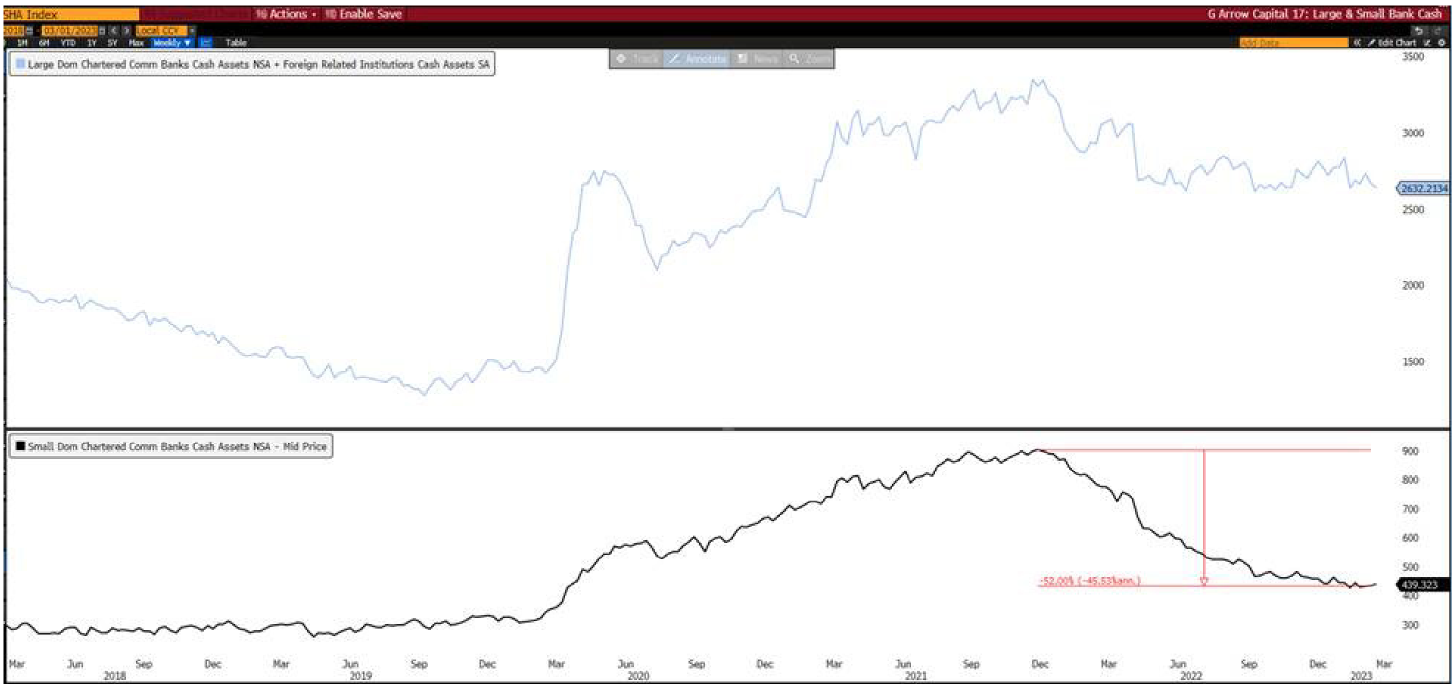
MSCI ACWI:
WTD -3.61%
MTD -1.97%
YTD 1.85%

Global Market Summary
The Fund posted a solid week on the back of our short equity positions in financials, discretionary and small cap indices. We are now basically flat for the year. We did reduce gross positioning on Friday pending the FED's resolution of the SVB closure. In what was shaping up to be a very hawkish week for rates given the labour releases in the US, it ended in a massive rally in the 2yr bond with a stunning reversal of 50ps from the intraweek peak of 5.08% to 4.58% on worries of systemic risks in the banking sector. 10yr yields also fell down to 3.70%.

The Fund shorts in the US regional banks helped to make money for clients this week. This situation was absolutely not a black swan event – anyone paying attention to independent analyst reports would have known names like SVB, SBNY etc were "red flagged" months and months ago and together with the growing challenge in commercial real estate markets, made regional banks particularly unattractive. Now we will get the deluge of analysis, arm-chair quarterbacking, moral hazard discussions on back-stopping uninsured deposits of "rich" people, the incompetence of these bank management teams, lack of sufficient oversight by regulators with poorly designed stress tests etc. etc. This past weekend you could have spent countless hours listening to all the voices. For us, the issues in looking after the portfolios are:

1. Is this a systemic banking crisis a la Lehman / 2008?
2. Is this the “break” in the system the FED needs to change the path of interest rates?

On Question 1, the short answer is we doubt it – this is not a Lehman moment nor is their a systemic risk IMHO. Uninsured deposits will be covered by the FED and the amount should be very manageable considering many vultures were already happy to pay 60-85c on the dollar from what we are hearing. Think new world version of “Old Man Potter” in It’s a Wonderful Life! Perhaps Goldman or JP Morgan steps in – although JPM is likely already a beneficiary given the performance of its stock on Friday. Maybe Warren Buffett? But what about a number of other regional banks like First Republic, Pac West etc. whose shares have been walloped in sympathy with SVB so perhaps there is more to go? The chart below shows how deposits have been shrinking in general (a function of falling savings and importantly better alternatives (T-Bills/MMF’s) from which to earn interest. Of particular interest is Fed data from their H8 showing a major divergence between large and small banks shown in the graph below:



As you can see, the exodus has been going on for a while for smaller banks. Banks need to maintain their LCR (liquidity capital ratio) over 100% (= HQLA/30 day stressed deposit outflow) to meet a stressed scenario of a withdrawal of bank deposits. Clearly the rapid hike in FED rates has had an enormous negative impact on the value of the HQLA (high quality liquid assets = treasuries/ agency MBS) but even a more pronounced impact on the mortgaged backed securities (also considered as liquid as cash) market as the values here have plummeted. However, most banks have rate risk hedged via swaps such that they can simply unwind the gains on these which pretty much offsets the losses on the Treasuries. But alas SVB did not hedge much of their rate risk. So as deposits are withdrawn (and SVB’s funding base was very highly focussed on tech companies and not really diversified) , they were forced to sell those liquid assets. These assets, if designated as ‘hold to maturity’, can be kept at book value (amortized cost) i.e. no volatility; but if they need to be sold for whatever reason then they are marked to market creating a potential loss and perhaps necessitating the need to raise further capital – as was the case in the failed SVB capital raise on Wednesday and the subsequent massive withdrawal of deposits by Thursday. The regulators are then forced to move in and liquidate. So, are these “smaller” banks properly “hedged” for the rate risks that have occurred and will there be a “run” or continued erosion of smaller bank deposit bases? Time will tell, but clearly the FED must move to restore confidence by dealing with SVB quickly. We clearly feel for the thousands of businesses – not just in the tech space – that will need to address employees who will be wondering if they will get a paycheck this week? Confidence in the system is the bedrock of capital markets. SVB had deposits of some $200 billion in assets versus a US aggregate deposit base of $18 trillion. Approximately $42 billion was withdrawn from SVB on Friday – amazing to say the least!

The other point to consider that at the EOD, this is largely a liquidity crisis and not a credit issue. Banks have been loathe to offer depositors a reasonable rate on their deposits – maybe people with better financial literacy and online tools are waking up to alternatives – like MMF's and T-bills. There is not much competition between 50bps vs 4-5% in those alternatives. We would expect bank margins to be negatively impacted going forward as the competition for deposits heats up.

On Question 2, if this is a one-off banking issue that is contained quickly then perhaps not. The jobs data, which was lost in all the bank fears, remained strong with only minor downward revisions to the January blowout while February was a solid +300k – again exceeding expectations. The good news for inflation/goldilocks was more people entered the workforce and wage growth was subdued. However, on balance the data was not indicative of a deteriorating economy or necessarily a pending dramatic fall in inflation. So now we are in the waiting game but certainly the FED has an excuse to pause as SVB has given it cover. How will markets respond to a pause? The US terminal rate did fall on Friday to 5.3% which suggests more hikes still to come and it dropped again on Monday morning to 4.6% - a 100bps move in three days! Financial conditions (BBG Index) is also getting much worse over the weekend.

In terms of what I found revealing over the weekend:

1. The massive impact of online banking / social media (h/t Jim Bianco)– this is not like It's a Wonderful Life where everyone rushed out of their homes to get their money – just point and click and you are out;

2. How regulatory arbitrage works its magic once again – SVB just small enough to escape more stringent controls / reporting requirements of the FED creating opportunity for less prudent risk management;

3. The system as constructed worked - release valves were used - SVB did go to the next "lender of last resort" – the Home Loan banks – but that was tapped out at $15 billion – perhaps they could have gone to the last lender of resort - the FED discount window - but at the EOD the jig was up quickly given point 1.

4. The net effect of some banks losing deposits Monday and some getting those deposits is lower aggregate lending – those that lose deposits will raise liquidity and those than win deposits will sit on them in bills or at the FED. (h/t Tom Graff). Boosts the chances of a pause.

5. FDIC rules / policies will likely be changed – not sure what happens here but improvements are needed in the $8 TR in uninsured portion of deposits – specifically in the deposits used for transactions like payroll etc.

We took the opportunity to monetize a good portion of our PnL on Friday. We have shrunk our balance sheet in favour of waiting for the response by the government and the FED but we have maintained a now lower level core equity index shorts. In FX, our bet continues to be short the C$ vs the USD. Canadian employment was strong – thanks to the government and healthcare hiring. We do see a pending material reduction in residential real estate employment this spring / early summer along with potential reductions in financial services jobs in Canada as creating the conditions for a recession much sooner in Canada than the US. The market priced out any further hikes by the BoC on Friday and as the old saying goes – if the US gets a cold, Canada may get pneumonia.

Globally, the BoJ meeting was a no surprise as expected. The coming week will be focussed on SVB but don't forget we have US CPI on Tuesday and OPEX on Friday to contend with as well. Never a dull moment these days.

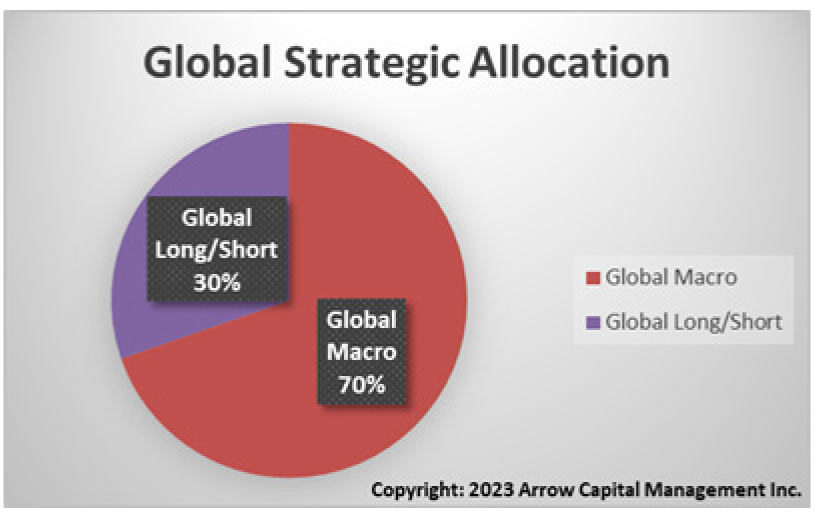
Summary Table
Economic Forecasts (Q4/2022 and Q1/2023)

Country	Q1 Outlook	Q2 Outlook
US	D	D
Canada	D	D
Eurozone	D	D
China	I	G
Japan	G	D

D= Deflation / G= Real Growth / R= Inflationary Growth / I = Inflation

Economic Weekly Update

Below is a summary of the week and significant changes.



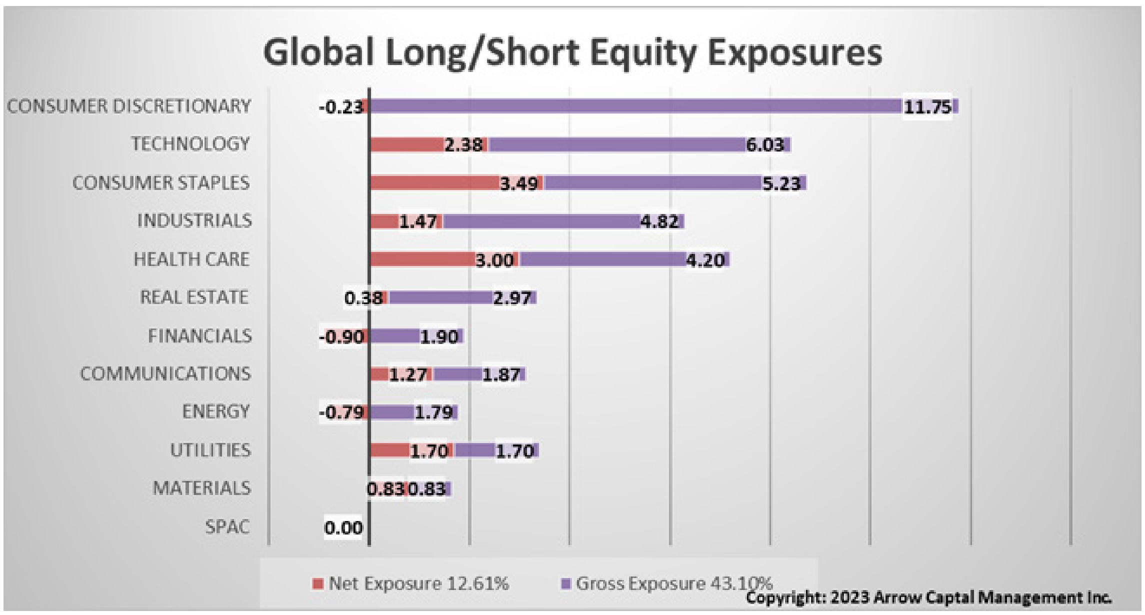
The portfolio is divided into 2 parts – a Global Long/Short part (individual securities) and a Global Macro part that focuses on liquid futures, ETF's etc. across FX, Commodities, Fixed Income and Equities.

Geographic Equity Exposures (% Total Portfolio including Futures)

ASSET ALLOCATION	NET	GROSS	LONG	SHORT
US	-7.6	28.2	10.3	-17.9
Europe	0.0	8.5	4.2	-4.3
Canada	0.3	1.0	0.6	-0.4
Asia ex Japan	0.7	0.7	0.7	0.0
Japan	0.4	0.4	0.4	0.0
Australia	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Equities Total	**-6.2**	**38.8**	**16.3**	**-22.5**
Bonds	4.0	8.9	6.5	-2.4
Commodities	2.6	2.6	2.6	0.0
Total	**0.4**	**50.4**	**25.4**	**-25.0**

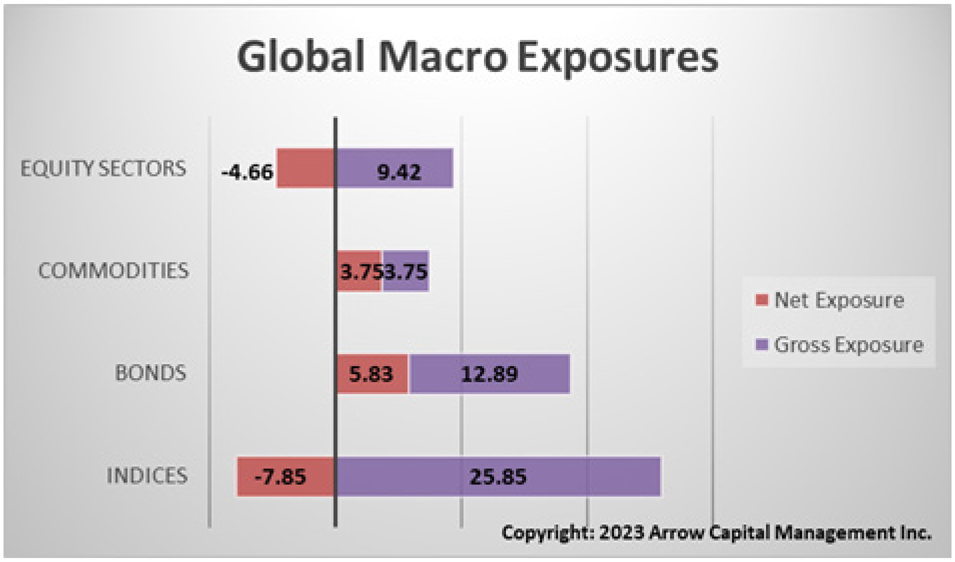
Summary of our current positioning:

1) Global Sector Exposures (Long / Short Portfolio of individual companies)



Throughout last week we reduced our net exposure through market hedges and profit-taking. We added market hedges in light of the new systemic risks involving the US banking system and took down our long industrials / tech exposure given a more balanced risk reward. While the backdrop for Industrials looks positive relative to the market, the assumptions the equities are now discounting, in the context of deteriorating sentiment, does not present a compelling opportunity. We decided to take profits and reduce our sector net exposure from just over 4% to 1.5%. We also took down our tech exposure as we expect to see rotation from high beta to low vol going forward. We will continue to monitor the trajectory of global economies to see if we get a chance to add them back if the risk reward skews more positive. As rates come down rapidly, duration names should benefit theoretically. However, we prefer low vol and quality as they are the only factors outperform in quad 4 over the 30-year history. We expect to see more focus given to liquidity condition/ cash assets rather than corporate growth in future earnings release. Last week we also incrementally added some call options to defensive exposures- such as Consumer Staples and Health Care- should the risk appetite in the market continue to deteriorate we could see rotation back into these sectors that have been out of favour YTD.

2) Global Macro Exposures



Total Gross: 51.91%, Total Net: -2.93%

Commodities – Bullish Gold

Commodities were increased by 0.2%.

Bonds – Bullish Duration / Short Credit

Bonds were reduced by 1.6%.

Equity Futures – Negative

Equity Index shorts were reduced by 0.2%.

Foreign Exchange Positions:

FX EXPOSURE	%
CAD	91.3
USD	9.5
EUR	2.6
Other	0.2
AUD	0.0
JPY	-0.2
GBP	-3.5
DXY	0.0
Total Fund	100.0%

* We have included the delta adjusted totals to the FX summary above.

FX – Bullish USD & Yen

CAD was increased by 5%. USD was reduced by 6.8%. EUR was reduced to 0.7%. JPY was increased from -2.4% to -0.2%. GBP short was reduced from -3.7% to -3.5%.

Historical Performance – As of February 28, 2023

	1-Year	3-Year	5-Year	ITD
AGAA - Series F	-1.15%	3.99%		3.06%

Published March 13, 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.

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