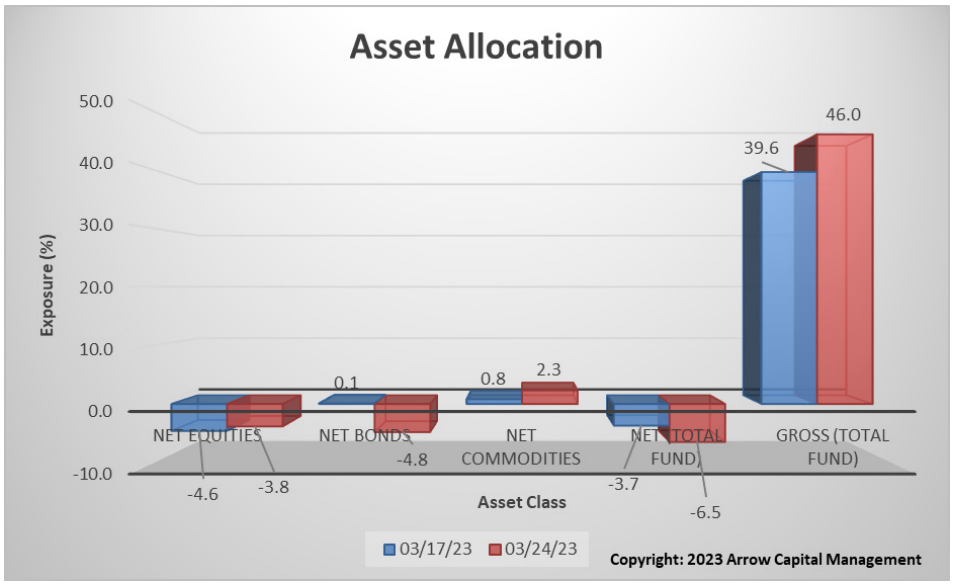


Weekly performance, macro context, current positioning, and future expectations.

Performance
March 24, 2023

Arrow Global Advantage Alternative Class (Series F):
WTD 0.09%
MTD 1.18%
YTD 0.05%

MSCI ACWI:
WTD 1.46%
MTD -0.63%
YTD 3.25%

Global Market Summary
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 banks or the their NIM's. 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 were 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 or S&P 500 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.

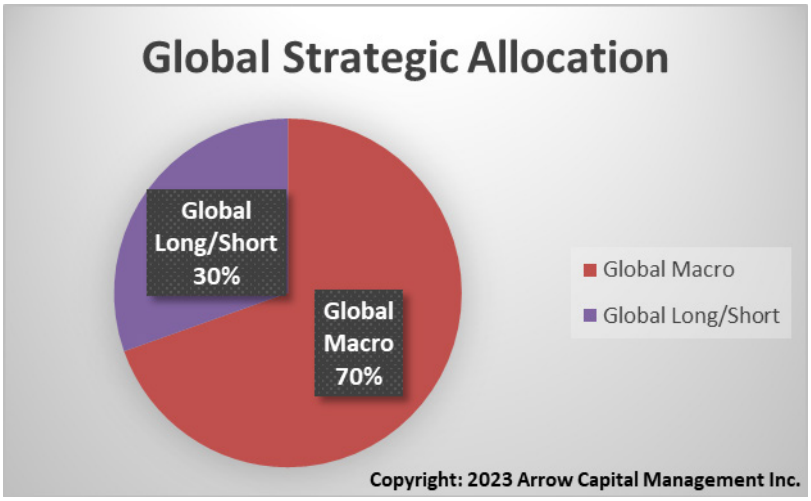
Summary Table
Economic Forecasts (Q4/2022 and Q1/2023)

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.



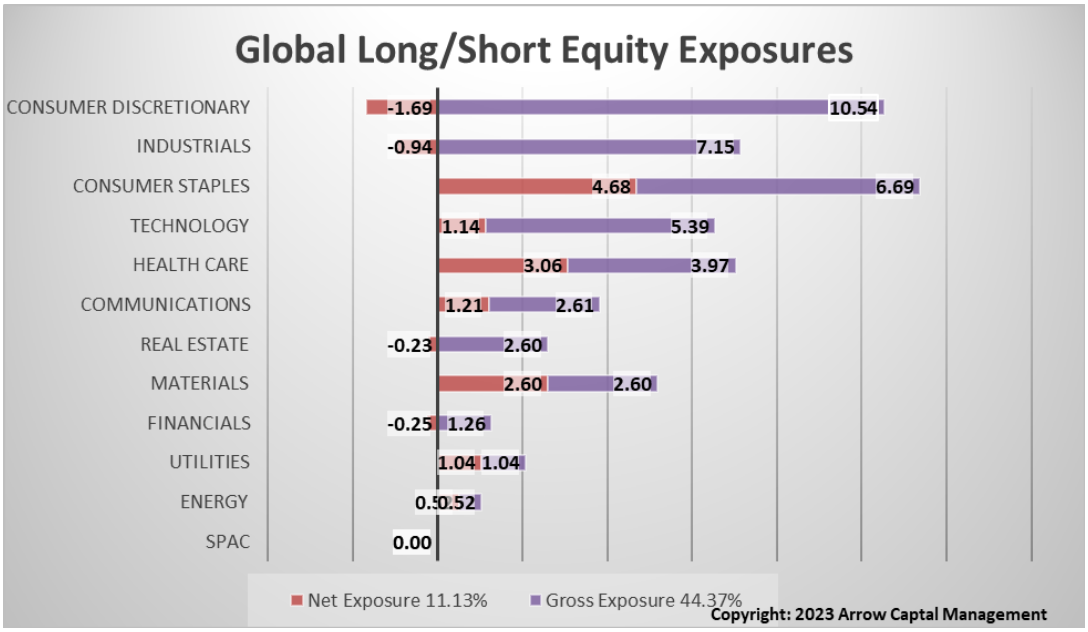
The portfolio is divided into 2 parts – a Global Long/Short part (individual securities) and a Global Macro part that focuses on liquid futures, ETF's etc. across FX, Commodities, Fixed Income and Equities.

Geographic Equity Exposures (% Total Portfolio including Futures)

ASSET ALLOCATION	NET	GROSS	LONG	SHORT
US	-4.1	30.2	13.0	-17.2
Europe	-0.6	2.7	1.0	-1.7
Canada	0.4	1.0	0.7	-0.3
Asia ex Japan	0.2	0.4	0.3	-0.1
Japan	0.2	0.2	0.2	0.0
Others	0.1	0.1	0.1	0.0
Australia	0.0	0.0	0.0	0.0
Equities Total	**-3.8**	**34.6**	**15.4**	**-19.2**
Bonds	-4.8	8.9	2.0	-6.8
Commodities	2.3	2.3	2.3	0.0
Total	**-6.3**	**45.8**	**19.7**	**-26.0**

Summary of our current positioning:

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

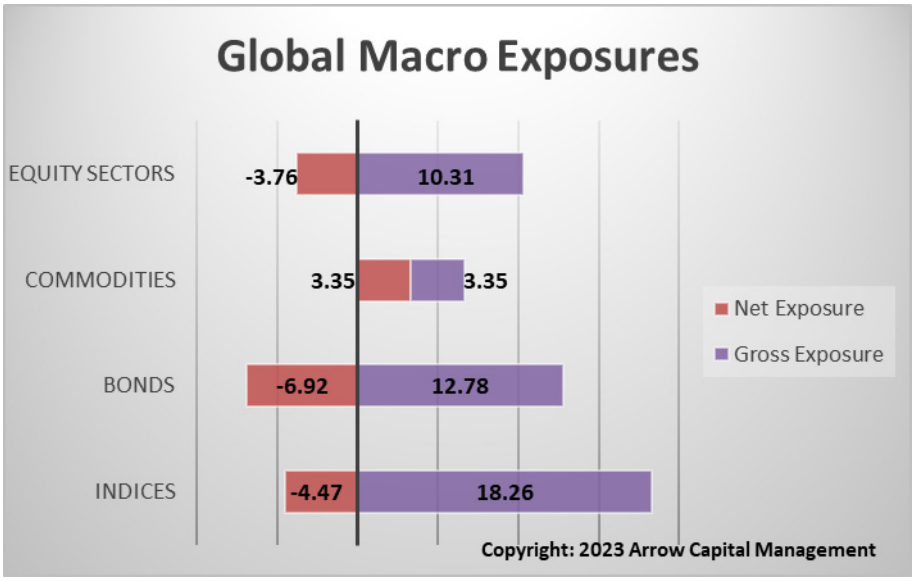


In the L/S portfolio we continued to take down our net exposure by further reducing cyclical longs and adding cyclical shorts (particularly in Europe where the Quad framework signals the most risk), offset partly by the addition of more longs in Staples and Healthcare.

This week we saw a continuation of the rotation out of cyclicals and into big tech as investors flock to liquidity and look to be more 'defensive' in the wake of the panic surrounding the banking crisis. This is reinvigorating economic fears as investors try to size the impact that tighter lending standards will have on the consumer. Given large cap tech has drastically outperformed the market YTD- evidenced by the performance spread of the cap-weight SPX vs equal-weighted SPX- it is an increasingly crowded trade at this juncture. Given the backdrop of economic uncertainty becoming more front-of-mind, we think the traditionally defensive sectors are looking more attractive- especially after the sell-off they have had YTD. On Thursday and Friday of last week we noticed some appetite to nibble away at defensive stocks- seeing large cap staples names like General Mills up 3% and Pepsi up 2% is interesting given how weak their price action has been YTD.

General Mills reported earnings last week and the company beat quarterly estimates and raised FY guidance for a second time this year. The focal point of the release was that volumes were flat. For some context, staples companies have been aggressively raising price since early 2022 and as a function of higher prices, volumes have been slowly going down, but only by a little. So far, price has gone up more than volumes have gone down, but the fear is that volumes will start materially going down. Consumers have absorbed the price hikes so far and, based on General Mills' results, looks like they can continue to without having to consume less. We will see how that trend continues into the next reporting season.

2) Global Macro Exposures



Total Gross: 44.7%, Total Net: -11.8%

Commodities – Bullish Gold

Commodities were increased by 1.56%.

Bonds – Bullish Duration / Short Credit

Bonds were reduced from 0.13% to -4.81%.

Equity Futures – Negative

Equity Index shorts were reduced by 2.15%.

Foreign Exchange Positions:

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

FX EXPOSURE	%
CAD	85.8
USD	11.6
JPY	5.2
Other	0.1
AUD	0.0
GBP	-0.2
EUR	-2.6
DXY	0.0
Total Fund	**100.0%**

FX – Bullish USD

CAD was reduced by 0.5%. USD was increased by 2.4%. JPY was increased by 0.6%. EUR short was increased from -0.2% to -2.6%.

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	ITD
AGAA - Series F	-1.15%	3.99%		3.06%

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.

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