

The Fund was -1.20% in June and -3.09% YTD vs +5.70% YTD for the TSX and +14.16% YTD for the S&P500.

Over the month, US markets were pushed higher by a narrow group of names, as AI stocks, led by NVDA drove positive returns for Tech and growth names. Given the Tech heavy exposure of the S&P500, this supported gains for that index. On the flipside, although overall market breadth remains poor, it has been improving over the past month with some beaten down sectors like Retail, Real Estate and Finance bouncing from depressed levels.

Yup, we still believe this is a bear market rally. FOMO kicking in

We have consistently written about the challenge of trading bear market rallies that test our long term fundamental views. With half the year now complete, we believe much of the recent market dynamics has been driven by FOMO (fear of missing out), or more appropriately FOMU (fear of materially underperforming). As the year progresses and managers fall further behind their benchmark or targets, especially after a tough 2022, people begin to make emotional decisions and start rationalizing moves. Broadly, we think the narrative of a soft landing is the most powerful of these rationalizations as continued economic strength and 'peaking' of inflation data is lulling many into a false sense of security. This is partly how bubbles get created, as flows, narratives, and greed de-couple fundamentals from emotionally driven price action. The tricky part is always that these situations can last much longer than rationally predicted.

For us, we remain convinced of our recession call. The fact that it may be taking longer than originally envisioned does NOT diminish this risk, and is NOT evidence of a soft landing. We are about 15 months into a tightening cycle, well within the lag effect of historical precedents. This cycle may be unique given the unprecedented fiscal stimulus and pent up covid demand that is flowing through as we speak. But, ultimately, we don't think it's different this time, and this current tightening cycle sets us up for a high probability of a recession, albeit maybe later than expected.

Looking back at H1

This is all well and good, but the truth of the matter is that we are not keeping up with the market this year, as our defensive positioning has clearly been tactically wrong. This was another lesson in the ability of the markets to inflict the most pain on the most people, as positioning for a near term recession became consensus. We were eyes wide open to this dynamic earlier this year, but despite our best efforts, it's just not that easy to tactically trade short term against your long term fundamental view. We've faced this dynamic through 3 or 4 such reversions over the past year.

With the economy proving to be more resilient than anticipated, the unwinding of this negative positioning has been swift and violent at times and is making the calls of a soft landing that much louder. We're disappointed by our first half performance, but this is clearly a long game, and from here, the risk/reward remains even less favourable given the YTD market gains and building of sentiment and complacency.

Looking ahead to H2

Given our cautious views, we have kept our exposures and positions quite tight through most of the year, with a positive bias to Energy/Materials, and a negative bias to Consumer/Tech. We are often asked what would change our thoughts of a recession vs soft landing. In short, we would be more open to taking on risk as we see evidence of leading indicators and in turn earnings bottoming. We believe it is too early, and co-incident/lagging indicators such as employment have yet to break.

As we write this, Q2 earnings season is starting to kick off and there is an eery sense of complacency leading into it, with VIX trading close to recent lows...it feels a bit reminiscent of early 2018, prior to Vol-mageddon. We will be paying close attention to near term guidance and maybe more importantly, price action in the context of stretched levels.

Other Fund updates

We are excited to announce the addition of Ashley Kennedy to the Arrow team. Ashley will be working with me on all my current mandates including Opportunities, Long/short, and Exemplar Performance. Ashley and I have known each other for many years, originally covering him when I was on the sell side. I consider Ashley one of the best alpha generators on the Street and an all around good dude. We are like minded on how we view markets and stocks, and he brings a toolkit that is additive to our current competencies through his many years of running money at Sprott, Forge First, and KJ Harrison.

We've just completed our 3 year anniversary in the Opportunities Fund. Despite one of the more challenging investing periods, we are pleased with our 3 year annualized return of 25.92%. The past 3 years provides a window into our investment style, flexibility, and mandate, being able to shift gears from aggression to caution quickly as we evaluate the ongoing risk/reward proposition.

In short, we are a performance driven fund with an open mandate that looks to generate outsized returns over a cycle through active stock picking, and opportunistic trading. As significant unitholders of the Fund, we are true owners, and are completely aligned with outside investors. In my view, this alignment of incentives allows for greater mental flexibility and objectivity, and ultimately better decision making and performance.

Oh, and for those always looking for interesting financial podcasts, here's a couple that I've enjoyed over the past couple of weeks. Both resonate with what we're trying to do here...

Seth Klarman – he doesn't do many interviews so this was pretty great - <https://podcasts.apple.com/za/podcast/capital-allocators-inside-the-institutional/id1223764016>

Ex Big Short guys - <https://podcasts.apple.com/za/podcast/porter-collins-and-vincent-daniel-big-shorts-and-big-longs/id1223764016?i=1000619105027>

Thank you for your continued interest in the Fund.

Sincerely,

Chung Kim

Portfolio Manager

Arrow Capital Management Inc.

| Historical Performance | 1 yr | 3 yr | ITD |
|--|------|-------|-------|
| Arrow Opportunities Alt Class Series F | 0.28 | 25.95 | 25.92 |

Returns as of June 30, 2023

Effective June 15, 2023, Arrow Opportunities Alternative Class was renamed (formerly Arrow Global Opportunities Alternative Class). The Arrow Opportunities Alternative Class inception date is June 30, 2020.

Prior to September 30, 2021, the Fund was named Arrow Global Opportunities Class (“AGOC”). The Fund distributed to investors on a prospectus-exempt basis in accordance with National Instrument 45-106 and was not a reporting issuer between June 30, 2020 and January 10, 2022. The expenses of AGOC would have been higher during such period had the Fund been subject to the additional regulatory requirements applicable to a reporting issuer. Financial statements of AGOC are posted on Arrow’s website and are available to investors upon request

Exemptive relief was granted by the Ontario Securities Commission on November 21, 2021 to permit the Fund to use performance prior to the Fund becoming a reporting issuer.

Commissions, trailing commissions, management and performance fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. 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 are not guaranteed, their values change frequently and past performance may not be repeated.

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 and the portfolio manager believe to be reasonable assumptions, neither Arrow Capital 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 undertaken, 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 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. Published July 2023.

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