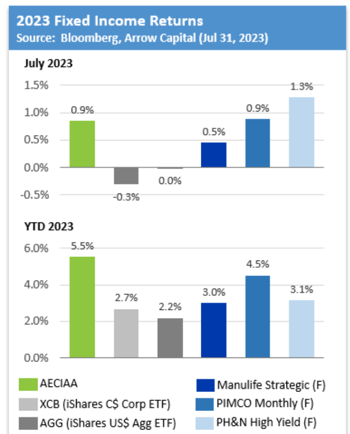
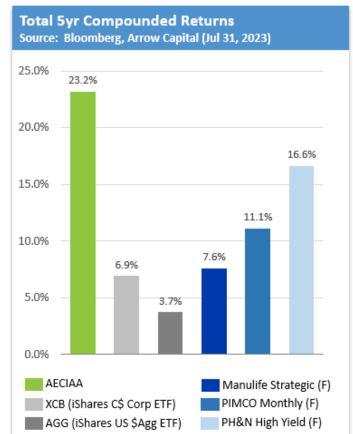
EAST COAST MARKET COMMENTARY
JULY 2023

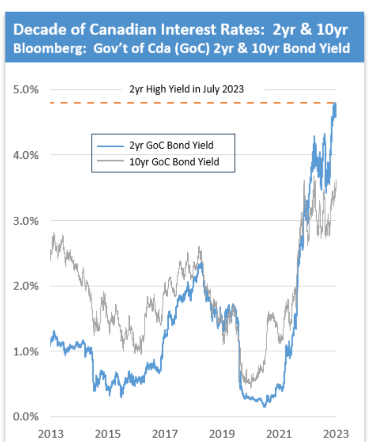
Throughout July, interest rate volatility persisted due to a constant stream of data releases and central bank headlines. These factors kept swinging the balance between the possibility of additional rate hikes being necessary to curb inflationary pressures and the notion that the economy might be slowing down, thereby ruling out further rate increases. In both Canada and the US, 2yr rates traded in a now typical wide range of 30-40bps but closed mostly unchanged with 2yr Treasury yields 2bps lower (-0.02%) and 2yr Canadian yields 9bps higher (+0.09%) by the end of the month. Interest rate curves steepened slightly, as longer-dated yields closed weaker (higher) than short-dated yields on the month: 10yr Treasury yields were 12bps higher (+0.12%) and 10yr Canadian yields were 22bps higher (+0.22%). In July, equities had a positive month with US equities (S&P 500) +3.2% and Canadian equities (S&P TSX Comp) +2.6%. IG credit spreads rallied 10bps in the US and 7bps in Canada, although Canadian bank spreads outperformed, rallying over 10bps in July.

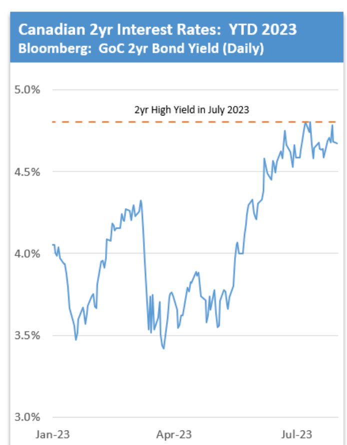
The continued pressure on interest rates weighed on the indices (both Canadian Corporate bond index (XCB) and the US Aggregate bond index (AGG)); while the performance of credit spreads – both IG and HY – helped other fixed income funds eek out a small positive return in July. AECIAA continues to outperform. After adding another 0.9% in July, AECIAA has provided investors a 5.5% return year to date. Over the longer-term (5yr), isolation of credit spreads has also been extremely beneficial for investors, as AECIAA has provided almost 15% more return than a passive Canadian corporate bond index (XCB) investment. As the graphs at right highlight, AECIAA performance has also been exceptional relative to other actively managed fixed income investment funds.



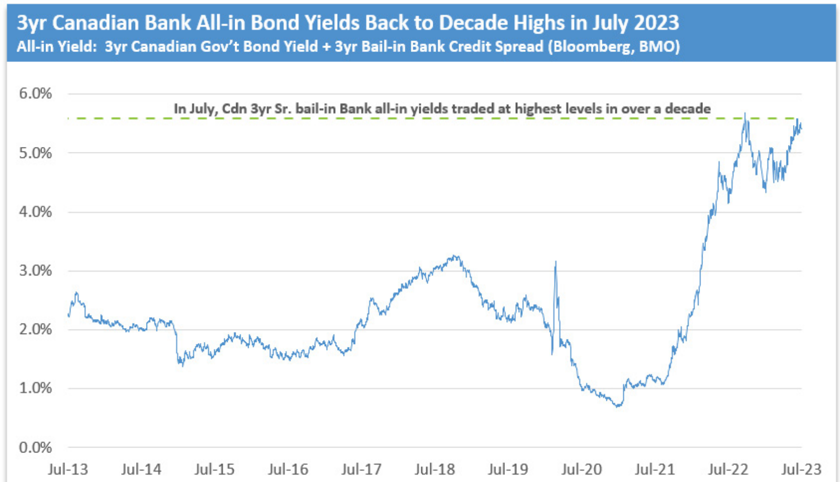


With all the talk of interest rates, it is sometimes easier to see things in picture. In a 'normal' curve environment, short-dated rates would trade lower than long-dated rates as investors demand a higher return for the uncertainty over a longer period of time. The chart below left shows Gov't of Cda (GoC) 2yr and 10yr bond yields and highlights the dramatic sell-off (rise) of 2yr rates relative to 10yr rates. This is due to the market's expectations of Bank of Canada (BoC) rate hikes. The chart below right expands YTD 2yr yields, highlighting the rise to 4.8% (orange dotted lines), which is the **highest level 2yr GoC yields have traded in over two decades** (since 2001). Markets believe we are near the peak of central bank hikes in Canada and the US, with less than one remaining hike currently priced in both markets.





All-in yields of investment grade credit have attracted investors and helped drive the rally in credit spreads. Another chart we constantly watch (and show investors) is the all-in yield of short-dated financials. We revisit these yields frequently, as every fund manager must purchase the whole corporate bond. As a reminder, corporate bonds are made up of two components: the 'risk-free' government interest rate and the additional credit spread (or yield) that is demanded by investors as compensation for purchasing the corporation's debt over that of the 'risk-free' exposure. While our strategy is unique in that it aims to isolate just the credit spread portion of a corporate bond, the underlying asset is still whole IG corporate bonds.



The chart at right shows Canadian senior bail-in bank all-in (or total) daily bond yields, with the green dotted line representing the high yield (5.6%) traded in July 2023. This attracted buying as investors were happy to add short-dated, high-quality senior bank debt exposure at lofty yields.

The investment team's portfolio structure continues to offer an expected total return of over 8%[2]. In all the fixed income volatility over the last 12-mos, we remain convinced that investment grade (IG) credit spreads offer compelling asset mix diversification and benefit to investors. Credit spreads have rallied (tightened) significantly from March's wide (weak) levels. As a result, the investment team is becoming even more selective in terms of quality and exposure within the portfolio. The goal continues to be providing investors with the best possible risk-adjusted return, focused on short-dated, high-quality IG assets.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative FD	8.96	5.43	4.26	3.51	3.55
East Coast Investment Grade II Fund Cl F	13.51	8.31	7.45	-	6.15

Returns as of July 31, 2023

[2]Expected Total Return represents the expected annual investor return and comprises the weighted average yield-to-worst of the portfolio's holdings plus the weighted average roll-down return, plus the money market yield on Fund assets, net of any funding costs.

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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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 August 2023.