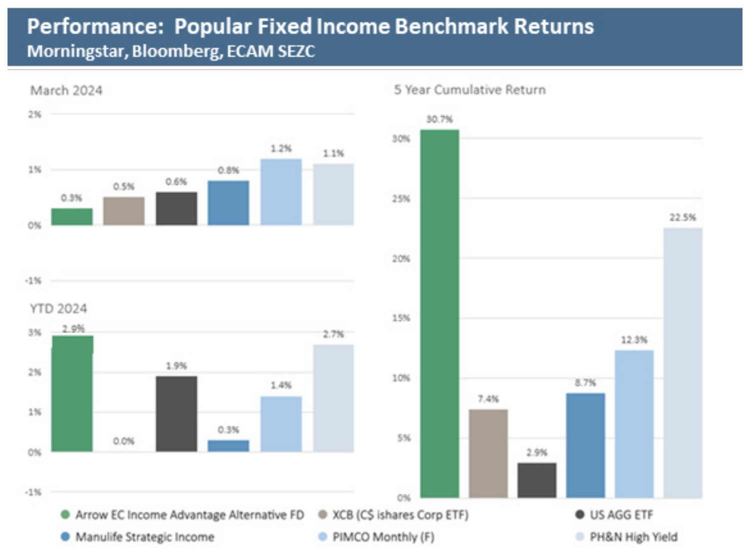
In March, amidst market uncertainty surrounding central bank policies, equities, fixed income, and commodities all rallied, marking a positive end to the first quarter. Despite two recent inflation (CPI) reports surpassing estimates, investor concerns were alleviated by the March Fed meeting where Fed Chairman Powell went so far as to mention a strong jobs market wouldn't deter the Fed from cutting rates. This led to a notable uptick in US equities (S&P 500) by 3.1%, particularly in sectors such as banking, artificial intelligence, and dividend-paying stocks. Canadian equities (TSX Comp) also surged by 3.9% in March. Over the last few months there have been some large inflows to money market assets, which now exceed $6 trillion, driven by short-term yields trading above 5%. Faced with uncertainty regarding the direction of equities and interest rates, investors sought refuge in these "safe haven" money market investments and drove gold prices to record, all-time highs in March.

Interest rates remained volatile throughout March, fluctuating within a 20bps range, yet ultimately strengthened by a few basis points across the curve. Ten-year government rates experienced a modest 5bps rally in Canada and 6bps rally in the US. In investment grade (IG) credit indices, there was a 5bps rally in the US (Bloomberg US Aggregate Credit), whereas Canada slightly underperformed, with IG credit indices weakening by +1bp North of the border (Bloomberg Canadian Aggregate Credit).

The modest rally in rates, alongside the performance of US investment grade (IG) credit, drove returns of traditional indices and popular fixed income funds in March, as depicted in the chart on the right. Despite a slight weakening observed in Canadian IG credit indices, the East Coast strategy continued to deliver positive returns to investors. In response to the rally in spreads towards tighter levels, the investment team has prudently reduced the portfolio's credit risk exposure (measured by CS01). Decreasing credit spreads signify increased confidence in the repayment of corporate bonds, as investors do not require as much compensation (spread yield). Conversely, a decline in risk sentiment typically leads to wider spreads as investors demand greater compensation for assuming the same corporate repayment risk.



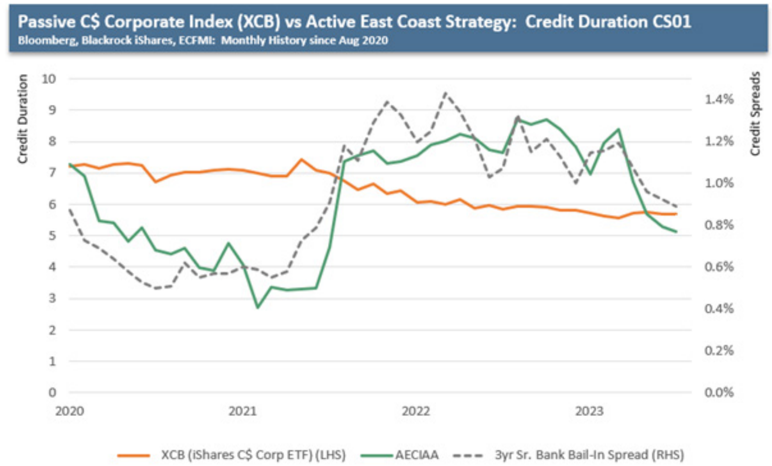
Interest rates are expected to remain volatile in the near term, as market sentiment oscillates concerning potential central bank rate cuts. The Federal Reserve finds itself in a challenging position, as highlighted by Chairman Powell during a speech at Stanford in the first week of April:

"Reducing rates too soon or too much could result in a reversal in the progress we've seen on inflation and ultimately require even tighter policy to get inflation back to 2%, But easing policy too late or too little could unduly weaken economic activity and employment."

ACTIVE PORTFOLIO POSITIONING AIMS TO ELIMINATE THE NEED TO "TIME" STRATEGY INVESTMENT

Typically, when spreads tighten towards the high-end of the range, signaling expensive valuations, the investment team adopts a more defensive stance for the portfolio. This proactive approach aims to shield investor capital, anticipating a potential widening (weakening) of spreads as they revert to more normalized levels. Although current spreads hover near the tight-end of the 2022-2024 range, they remain within 5-10 basis points of long-term averages.

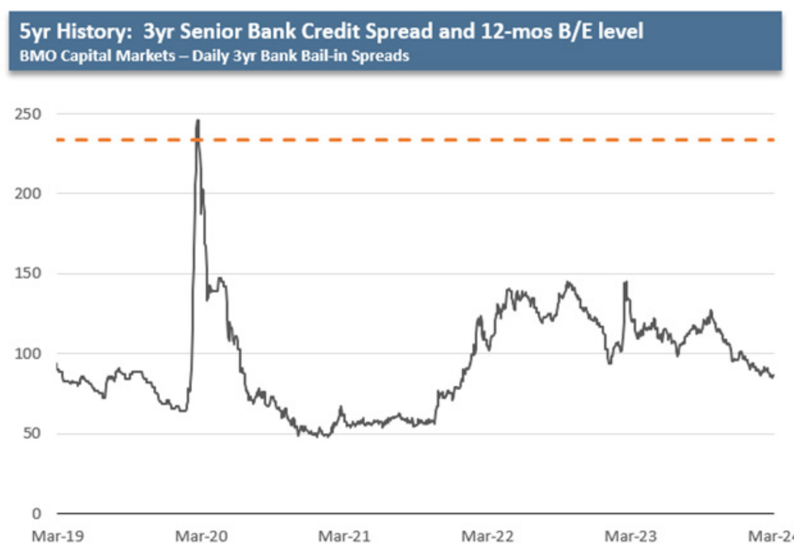
As depicted in the chart on the at right, the investment team has actively reduced the overall portfolio risk, measured by CS01 (green line), in response to the recent compression (rally) in credit spreads (dotted grey line). This adjustment ensures the portfolio maintains significant flexibility to increase risk exposure if spreads revert to wider levels. In contrast, passive mandates lack this adaptability, as illustrated by the C$ iShares Corporate Index ETF (orange line), exposing investors to consistent levels of risk (CS01) regardless of spread valuations.



The East Coast strategy is designed to alleviate the necessity for investors to time their entry into the fund. Instead, the investment team actively structures the portfolio's exposure across various stages of the credit spread cycle. Despite the reduced risk, the current portfolio yield, although lower than recent highs, still aims to offer investors an attractive return experience if spreads continue to rally and tighten further.

ACTIVE PORTFOLIO POSITIONING AIMS TO ELIMINATE THE NEED TO "TIME" STRATEGY INVESTMENT

The investment team continuously navigates the delicate balance between risk and return within the portfolio. Despite the portfolio's reduced risk, the portfolio maintains an attractive current yield. As investors are aware, the portfolio's yield not only drives investor returns but also serves as a protective buffer against potential capital erosion in the event of market volatility leading to spread widening.



The accompanying chart at right illustrates this buffer concept through a 12-month Break-Even (B/E) level. It demonstrates to investors the extent to which spreads can widen before the expected annual current yield is compromised. This B/E value, currently +140bps, is well more than double today's spread level, and represents the amount of spread widening that the portfolio could sustain over the next year without incurring losses for investors by the end of the 12-month period.

As illustrated, even if 3-year Senior Bank credit spreads were to weaken to the orange dotted line (approaching the worst levels experienced during COVID-19), investors would still break even at the end of March 2025 (12-months forward). We can ascertain the value of this buffer based on portfolio analytics, as a bond's payout is a known, or certain, value if held to maturity, contingent upon the issuer's solvency. This certainty contrasts with equities, where future payment streams are uncertain at any given time.

The portfolio's average maturity has been reduced further to 1.7 years, down from 2.7 years, one year ago when we held a more optimistic view on spreads. In March, the investment team further decreased the overall credit exposure (CS01) of the portfolio, ensuring even more flexibility to add risk when spreads widen to more cost-effective levels.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	11.03	5.38	5.50	3.90	3.96
East Coast Investment Grade II Fund Cl F	16.75	8.48	9.13	7.02	6.78

Returns as of March 31, 2024

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.