Overview

The Fund posted a return of -0.07% (flat) in Q2, 2024 and is up +5.09% for the year (Series FD). Our blended benchmark returned +1.13%* for the quarter so we slightly underperformed in Q2 but remain ahead year to date.

Our slight underperformance can be explained by our exposure to 4 companies being under the benchmark weight (GOOG/MSFT/NVDA/AAPL). Our risk management process will not allow individual stock exposures to be too high. These shares are likely due for decent pullback but longer term they are secular winners enabling the backbone of our AI future.

Our GIP Model (Growth, Inflation and Policy) continues to signal a slowing rate of global economic growth with the most recent data showing a meaningful deceleration in the US. China, the second largest economy in the world, is also exhibiting slow growth and next to zero inflation. This contrasts with the Eurozone which we forecast to be in QUAD 1 (growing real GDP and falling inflation). The UK economy as well appears to be signaling a stronger growth outlook and has its election sorted. Finally, Canada is forecasted to be an inflationary growth for the next few quarters.

On the inflation front, our view is for “sticky” inflation in the US. Base effects will show inflation slowing in Q3, but that trend should reverse later in Q4. However, this window should allow the FED to cut in September as the markets expect. A further cut in December may be “tricky” depending on the data as we suggest and of course the US election outcome. Elsewhere globally, Europe’s inflation continues to fall providing the ECB with cover to cut further. Bonds offer decent value in Europe but recent political developments in France make us uneasy on generalizations. Bond yields in Japan continue to rise as Japanese inflation is showing steady progress upwards given wage growth developments. This in turn is making US government bonds less attractive for Japanese institutional investors.

The “P” (policy) in our GIP model is the key factor that makes today’s economic forecasts a real challenge. In the US, the growing level of government debt and the policy stances of the two parties on deficits are something both agree (along with Chinese tariffs). Will the US have a Liz Truss moment? Unlikely for now but something to keep an eye on and certainly something that may impact bond term premiums and rates. The QRA at the end of July is next up for clues on issuance levels and mixes. We are sanguine on US long bonds preferring 2yr bonds and investment grade credit. Additional issues remain regarding the US elections and foreign policy especially with respect to trade and tariffs. The world has always been complicated but it seems more so now. This requires us to take a more cautious stance for the next 4 or 5 months and to keep cash levels high.

Asset Allocation

Asset Class	Benchmark	Exposure as of 2Q24	Exposure as of 1Q24	Change
Equities	50%	43.3%	59.0%	-15.7%
Fixed Income	40%	26.4%	28.4%	-2.0%
Commodities	10%	5.2%	9.4%	-4.3%
Cash	0%	25.2%	3.2%	22.0%

A glance at the table above shows how we have raised a substantial amount of cash into the quarter end. While tactically July is a very bullish period for equities in the US, the coming slew of key tech and communication company reports will determine the fate of equity markets. The markets could get a lift from the expected rate cutting cycle allowing multiples to expand further but given current P/E’s, it may only be possible for more value-oriented segments of the market to rise.

We remain more optimistic on stocks over bonds but less so given the slowing economy. We remain neutral on commodities preferring gold.

Equities

Region	ETF	Total Return
Global	ACWI	2.92%
US	SPY US	4.38%
Non-US	EFA US	-0.18%
Emerging Markets	EEM US	4.39%

While equity returns moderated in Q2, the US continues to outperform. Once again it was the tech sector and in particular all things AI related that drove the performance. We will be watching these top names for their reports later in July and August; any hints of real deceleration will undoubtedly create a market correction.

Other major developed markets continue to underperform with Japan (EWJ -3.6%) and France (EWQ -6.6%). One exception was the UK where the pound and equities are starting to perform (EWU +4%). This is a very inexpensive market, and we continue to build our positions in the Fund.

Interestingly, emerging markets are doing much better. EM tends to perform better when the USD is falling, and global growth is positive however in this instance it is more the tech heavy components of Chinese and Taiwan markets, combined with continued strength in India, that is helping. China economically remains focused on the supply side (which is causing headaches for other major economies) while consumption and import growth is anemic. The upcoming Plenum along with further monetary and fiscal support may help but for us China is a market to trade only. The US election news flow should provide those opportunities. Elsewhere in EM, Brazil and Mexico saw their currencies and markets hurt by government policy and election outcomes.

As we enter a more challenging growth environment, our equity positioning is becoming more defensive. The below table shows we are overweight in utilities, staples, and healthcare. As noted in the overview, we are paying attention to the impact of possible Trump presidency as this could have material impacts on specific industries and companies positively and negatively. Some of this is being priced in now, but this likely to create further opportunities.

Sectors	Arrow Global G&I	ACWI	Overweight/ Underweight
Communications	7.89%	8.67%	0.72%
Consumer	7.96%	9.78%	0.41%
Consumer Staples	9.14%	6.40%	0.61%
Energy	5.54%	4.30%	3.42%
Financials	13.34%	15.72%	0.60%
Health Care	13.26%	10.49%	-2.47%
Industrials	11.19%	9.27%	3.34%
Materials	2.26%	4.39%	2.01%
Real Estate	2.45%	1.98%	-0.14%
Information	18.75%	26.26%	-9.33%
Utilities	8.23%	2.47%	0.82%

We remain overweight large cap stocks versus small and mid-sized companies but are also finding some real gems down the capital structure.

Fixed Income

Bonds	Duration	Exposure
Long Term	>10yrs	10%
Medium Term	>5yrs <10yrs	14%
Short Term	<5yrs	76%
Gov't	mixed	66%
Credit	short	34%

The Bloomberg Global Aggregate Bond Index returned -1.00% for the quarter continuing the string of poor performance for bonds. As we have noted before, bonds are not as useful as a diversifier to equities given their higher and less stable correlations. We expect the current inversion in the US yield curve will continue to steepen as short rates come in over time. Owning the 2yr US treasury is preferable to the 10yr in our view. We have an investment grade credit position along with some US$ EM sovereign debt (EMB). Our duration remains extremely short but over time it is expected that we will add longer dated maturities. Of course, should the global economy deteriorate at a faster pace than we expect, we would swap cash and extend maturities.

Commodities

The broad-based Invesco DB Commodity Index returned +1.13% in Q2. Gold (GLD) was up 4.52% and now up over 14% for the year. Commodities and gold both outperformed bonds in Q2.

As the global economy show signs of slowing, our allocation to commodities ex gold is reduced. In some instances, we clearly prefer energy equities over physical oil and gas given valuations and yields. If inflation though remains “sticky”, we will continue to have an allocation. Gold on the other hand is a beneficiary of falling real growth and a great hedge against a weaker USD. It will remain between a 4% and 5% allocation in the Fund. Finally, we have introduced Bitcoin as a commodity linked asset to the Fund. This will remain quite small at never more than 1% of the Fund and serves solely as a diversifier at this point.

Foreign Exchange

The Fund closed with the following foreign exchange exposures:

	FX Exposure (%)	Performance in Q2 vs CAD
CAD	48.50	
USD	32.30	1.0%
Other	5.90	N/A
GBP	5.10	1.1%
EUR	5.00	0.3%
AUD	2.60	3.3%
JPY	0.30	-5.0%
Total Fund	100.00%	

Over the quarter the Canadian dollar fell 0.9% versus the USD. We use the USD as both a tactical hedge to equities and as a source of alpha. We currently believe the C$ will remain structurally weak for the balance of the year.

Concluding Thoughts

In the third quarter we expect growth to slow and inflation to remain elevated above the FED's target. We believe there is a tactical opportunity should inflation continue to moderate in the short term allowing the FED to get a cut in September and signal that it will continue to cut further. This should underpin equities and bonds and hopefully allow the market to broaden out. Will the back half of 2024 be a story of the other 493 stocks in the S&P 500 doing better – they were -2.62% in Q2? The key this quarter will be the earnings and guidance from big tech companies and whether the massive investment in AI is showing signs of generating revenue streams. If there is a misstep in one or two of these trillion-dollar market darlings, it will hard for the rest of the market to escape the damage. We do have a plan for managing some of this risk with a put spread package on the highest momentum stocks in the market.

With QUAD3 being the most likely economic scenario, the scope for returns is less optimistic (falling GDP generally leads to falling profits). If inflation comes in lower than our forecasts, nominal GDP will be worse, leading to fading profit growth. Currently, the market anticipates strong profits in the second half of the year, so a scenario where inflation underperforms expectations would be detrimental, barring any compensatory rate cuts and the resultant "Goldilocks" expectations. In QUAD 3, growth commands a premium, favoring secular winners and select sectors such as utilities and healthcare, where we are currently overweight. Short-term bonds may also be attractive until the inflation forecast shifts down. Precious metals should remain attractive as investors seek to protect their purchase power while industrial metals may experience mixed effects as growth slows. We maintain a balanced approach that aims to mitigate risks and capture opportunities as the economic landscape evolves.

Thank you again for your support and we wish everyone a safe and enjoyable summer.

*Our internal benchmark is not a traditional 60/40 or 50/50 stock to bond benchmark used by most of our peers. Rather we include commodities as this improves the overall risk/return ratio. We have back tested an allocation of 50% stocks / 40% bonds / 10% commodities and this model has generated lower volatility and better risk adjusted returns over the long run. As you would expect, it is especially good during inflationary periods. You can see the impact in Q1 below for example given the poor performance of bonds versus commodities. Feel free to ask your wholesaler for further details if you like.

	Benchmark Weight	Underlying Index	Q2 Performance
Equities	50%	MSCI ACWI	2.92%
Bonds	40%	Bloomberg Global Aggregate Bond Index	-1.10%
Commodities	10%	Invesco DB Commodity Index	1.13%
Benchmark			1.13%

Historical Performance	1 yr	ITD
Exemplar Global Growth & Income Fund - Ser FD	5.49	-1.04

Returns as of June 30, 2024

Effective June 25, 2024, Exemplar Global Growth and Income Class was merged into Exemplar Global Growth and Income Fund as part of the corporate class fund mergers. Effective April 16, 2024, Series A and F Shares of Exemplar Global Growth and Income Class were re-designated as Series AD and FD Shares, and Series AN and FN Share were re-designated as Series A and F Shares.

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 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 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 Exemplar Growth and Income Fund (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 2024.