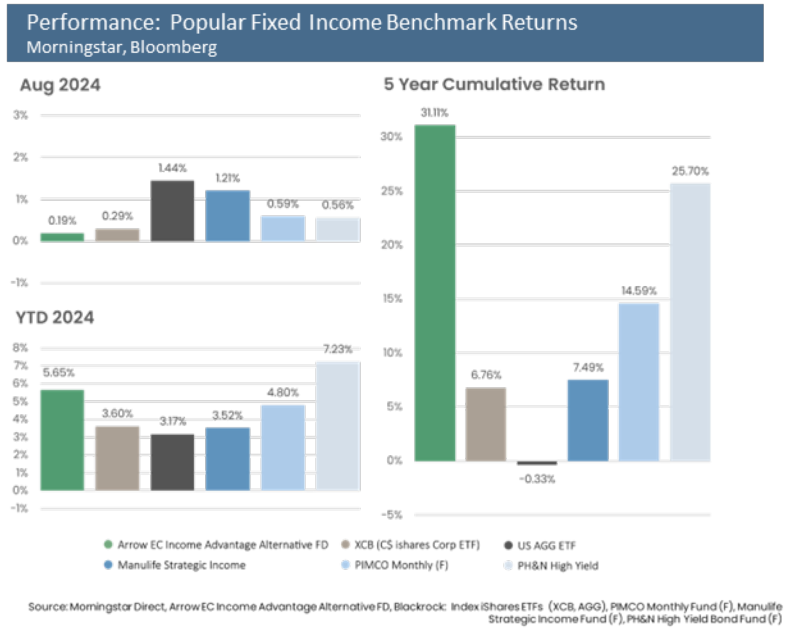
ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
august 2024

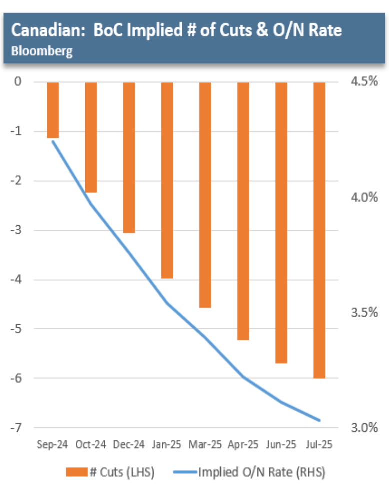
The pullback in equity and risk markets in July continued into the first week of August; however, most of these early losses had been regained by month's end. In August, the US labor market showed signs of cooling as non-farm payrolls were weaker than expected and the unemployment rate rose for the fourth month in a row. Interest rates dropped (rallied) in panicked trading, as some market participants called for an emergency FED mid-meeting cut. Cooler heads prevailed, but short-dated rates (2yrs) in the US had rallied (moved lower) by 34bps by month end while Canadian rates rallied a more moderate 12bps. Equity markets closed August slightly better with US equities (S&P 500) +2.43% and Canadian equities (S&P/TSX Comp) +1.22%.

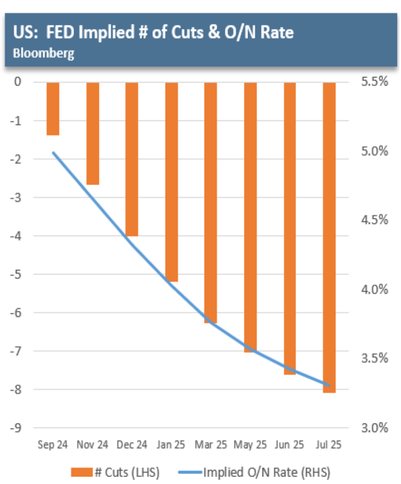
Investment Grade (IG) credit markets were mostly unchanged having a small 1bp rally in the US while spreads leaked wider (weaker) by 3bps in Canada on the back of heavy new issuance supply. In August, there was $8.7bn of new issuance in Canadian IG market compared to just $5.9bn in August last year.



The rate rally helped traditional fixed income post positive gains in August. The graphs at right show the 1-month, YTD, and 5-year return performance of the AECIAA strategy relative to popular fixed-income indices and funds. With spreads weaker in Canada, the AECIAA IG credit strategy was still able to deliver a small positive return for investors.

For investors wondering if the interest rate rally is done for now, we explore the current market pricing of implied rate cuts below. Interest rates have staged a significant rally over the last few months in both Canada and the US. This has helped drive positive returns for traditional funds which are highly correlated to interest rate moves. AECIAA's YTD return remains impressive, without the benefit of the rate rally. The disappointing returns of traditional fixed income over the last 5yrs highlights the benefit investors have received from the strategy's isolation of credit spreads from interest rates, and associated volatility, that has plagued longer-term returns of fixed income.





The chart at left shows the market expectations for central bank rate cuts at the start of September in both Canada and the US. As the orange bars show, by end of 2024, there are currently three 25bps cuts fully priced in Canada (across 3 meetings) and four 25bps cuts fully priced in the US (across 3 meetings). After every data release, the markets have started pricing in a greater or lesser probability of a 50bps cut, rather than just a 25bps cut, at the upcoming Sept FED meeting. For example, if employment is weak, the September meeting implied # of cuts goes to 1.8 instead of 1.4, as more market participants expect a 50bps, or 2 cut, decision. Over the next eight meetings (through the July 2025 meetings), there are 6 full cuts, or 150bps, priced in Canada and more than 8 cuts, or 200bps, priced in the US.

The blue lines on the charts represent the implied O/N rate in each country. In Canada, the market has priced the O/N rate moving from 4.5% (current) to an implied O/N rate of 3.0% over the next 8 meetings. In the US, the market has priced the O/N rate moving from 5.3% (current) to an implied O/N rate of 3.3% over the next 8 meetings.

The investment team's view is that the cuts currently priced into the market will not be realized outside of a mild recession. The cut pricing is clearly skewed based on a market wanting, or expecting, to account for this recession probability. The market doesn't seem to be putting too much weight on the possibility of a 'pause' at some point over the next 6-8mos period. One could conceive a situation where the central bank cuts 100bps in short order, then decides to wait and see how that plays out. Central banks may see growth/consumer/fiscal spend hold up better than feared and want to pause briefly to see how the initial cuts play out. Additionally, any uptick in inflation will surely spook the FED and BOC and make it much harder for them to continue to cut rates given the dual mandate. If the cuts are not realized, rates will move higher.

Consensus is concerned about recession risk. This is why rates have moved lower and why so many cuts are priced into the rate curve. The investment team's view is that we are in a mid-cycle slow down. Continued fiscal deficits, combined with multiple rate cuts, will stabilize the labour market and reignite inflation above the 2% target. This will cause the central banks to pause rate cuts and could easily see rates rise as much as 50bps. Current market pricing, clearly skewed to recession probability, isn't putting too much weight on a central bank 'pause' at some point. Ultimately, the investment team believes the market has fully priced an economic slowdown and mild recession. They believe a full-blown recession (unlikely at this time) would need to occur for rates to move substantially lower than current rate levels. A slower path of cuts, or even a pause, should see rates rise from current levels. This means the big rally seen in interest rates, and therefore traditional fixed income (which is over +0.9 correlated to rates), is likely to slow down for the time being.

In the AECIAA strategy, PMs continue to find good carry opportunities in Canadian IG credit, as valuations stand out as far more reasonable when compared to US equivalent IG credit investments. The team remains focused on high-quality, short-dated IG investments – looking to maximize risk-adjusted return opportunities for investors in the current market environment.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	9.64	5.95	5.57	4.23	4.04

Returns as of August 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.

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. 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 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 September 2024.