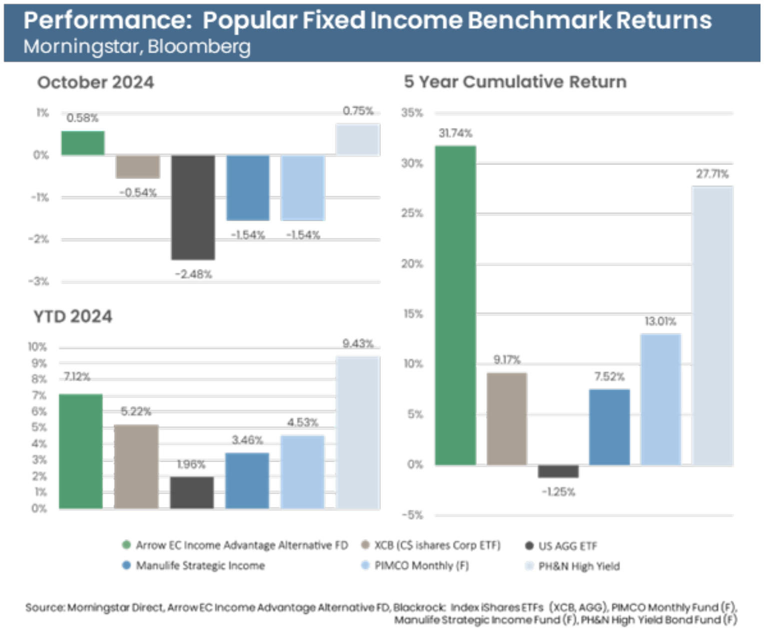
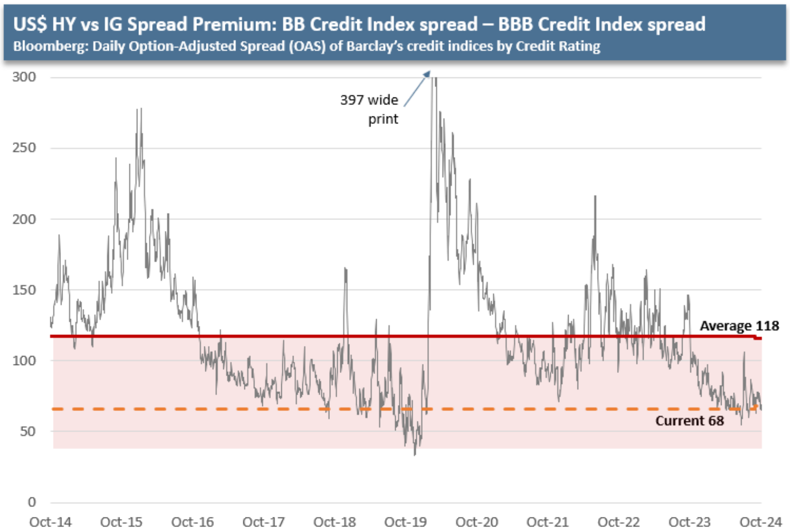
ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND
october 2024

In October, the market reduced its rate cut expectations. U.S. equity markets rallied and traded in positive territory for most of the month; however, they ended down slightly with weakness over the last two days of October. U.S. equities fell by -0.91% (S&P 500), while Canadian equities, driven by strength in the energy sector, closed higher by +0.85% (TSX Composite) for the month. Interest rate volatility continued, with Canadian government yields rising by 15-30bps across the 2yr to 30yr yield curve, and U.S. Treasury yields increasing significantly by 35-60bps across the curve. Investment-grade (IG) credit performed well, as U.S. IG credit spreads tightened (rallied) by -5bps, and Canadian IG credit spreads tightened (rallied) by -6bps in October.

The significant sell-off in interest rates drove negative returns for traditional funds, which are highly correlated to interest rate movements. However, the performance of the AECIAA credit strategy remains unaffected by fluctuations in interest rates. In September, investors did not benefit from the large rally in rates, and in October, they did not experience any disadvantage from the significant rate sell-off. As shown in the chart on the right, AECIAA delivered another consistent, positive monthly return. AECIAA investors have encountered significantly less volatility than traditional fixed income, which has an extremely high positive correlation (over 0.9%) with interest rates.



As investment-grade (IG) credit spreads have rallied to much tighter (more expensive) levels, the investment team has taken profits and sold a large portion of our holdings. Over the last 6-12 months, we have gradually reduced our investors' risk exposure (or credit duration), and our portfolio risk is now at the lowest levels since the end of 2021. This active management of risk/exposure aims to mitigate the need for investors to "time" a sale or purchase within our strategy. When spreads are expensive, as they are at current levels, the portfolio managers maintain lower credit exposure, ensuring they can stay agile and prefer to wait for spreads to widen (cheapen) before increasing risk exposure by buying additional IG credit at those more favorable levels.



While investment-grade (IG) spreads have rallied substantially, it's important to consider this movement in the context of other credit spreads. The chart on the left illustrates the U.S. high-yield (HY) risk premium between BB-rated and BBB-rated credits, calculated as follows:

Avg spread of BB-rated credits − Avg spread of BBB-rated credits

This HY risk premium is often viewed as an effective metric for comparing HY and IG spreads, as it excludes the volatility of lower-rated HY companies that could skew analysis (such as C-rated credits, which are the lowest HY rating and highly volatile).

Over the past 10 years, the average spread differential between BB and BBB credit spreads has been 118 basis points (bps), or 1.18%. This indicates that, on average, a BB-rated HY credit spread provides investors an additional 118 bps over a typical BBB-rated IG credit spread. During the COVID-19 crisis, BB-rated credit offered an additional +397 bps, on average, over BBB-rated credit, while in 2019, when spreads were at their tightest, BB-rated credit offered only +33 bps, on average, over BBB-rated credit. Currently, BB-rated credit offers investors only +68 bps over BBB-rated credit.

The investment team structures the portfolio to give investors greater exposure to credit (more risk) when spreads are wide and attractively priced. In more expensive environments, like the current one, the team reduces overall credit (risk) exposure and upgrades the credit quality. Higher credit quality aims to protect investors when spreads weaken and revert to the historical average. The red shading in the chart above highlights periods when high-yield (HY) risk premiums have been low (more expensive) compared to the 10-year average. The orange dotted line indicates the current HY risk premium. Over the past decade, only one period (in 2019) saw HY risk premiums trading at more expensive levels than they are today.

The investment team believes investors are not currently being appropriately compensated for holding lower-rated, higher-risk exposure. Portfolio managers have significantly reduced credit duration (or risk) by selling and taking profits on credit positions that have rallied substantially over the last six months. The team will increase credit duration (or risk) when spreads widen, or cheapen, and provide investors with better compensation for taking on additional risk exposure.

Historical Performance	1 yr	3 yr	5 yr	10 yr	ITD
Arrow EC Income Advantage Alternative Ser FD	10.39	6.42	5.67	4.49	4.11

Returns as of October 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 November 2024.