



EAST COAST INVESTMENT GRADE INCOME FUND

Management Report of Fund Performance

December 31, 2013

Experience. Intelligent Investing.

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2013

Management Report of Fund Performance

This annual management report of fund performance for East Coast Investment Grade Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the financial statements, at no cost, by calling 1-877-327-6048 or by sending a request to Arrow Capital Management Inc., 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5, or by visiting our website at www.arrow-capital.com or SEDAR at www.sedar.com. Unitholders may also contact us by using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance, unless otherwise noted, are based on the Fund's calculation of its Net Asset Value, which is in accordance with the terms of the Fund's declaration of trust.

The Fund

East Coast Investment Grade Income Fund is a closed-end investment trust managed by Arrow Capital Management Inc. (the "Manager"). The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol ECF.UN. Through a forward agreement ("Forward Agreement") between the Fund and Bank of Nova Scotia (the "Counterparty"), the Fund is exposed to a portfolio of securities (the "Portfolio") held by ECIGIF Trust. East Coast Fund Management Inc. (the "Portfolio Advisor"), is the portfolio advisor for the Portfolio held by ECIGIF Trust.

Investment Objectives and Strategies

The Fund's investment objectives are to provide unitholders with attractive monthly, tax-advantaged cash distributions, while preserving capital through an actively managed, diversified portfolio of investment grade debt securities of Canadian corporate and government issuers that are rated BBB- or higher by Standard & Poor's, or a similar rating from a qualified rating agency. The portfolio, held by ECIGIF Trust, consists primarily of corporate investment grade debt securities and government bonds. Distributions are targeted to be \$0.05 per month per unit.

The return to investors of the Fund is dependent upon the return of the ECIGIF Trust portfolio pursuant to the Forward Agreement. As a result, this management report of fund performance includes discussion of the performance of ECIGIF Trust, where applicable.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's prospectus dated April 26, 2012 (the "Prospectus"), which is available on the Fund's website at www.arrow-capital.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the period that materially affected the risks associated with an investment in the units of the Fund.

Results of Operations

Commencement of operations of the Fund was May 18, 2012. As a result all comparative information is for the period from the commencement of operations to December 31, 2012.

Investment Portfolio

As of December 31, 2013, ECIGIF Trust's portfolio included a total of 61 [2012 - 53] corporate investment grade debt securities, representing approximately 195% [2012 - 212%] of the net assets of ECIGIF Trust.

As part of its investment strategy, ECIGIF Trust sells government bonds short and invests its proceeds in corporate investment grade debt securities. Incorporating short sales also enhances the portfolio yield and allows ECIGIF Trust to offset some or all of the interest rate risk on that portion of the portfolio. As at

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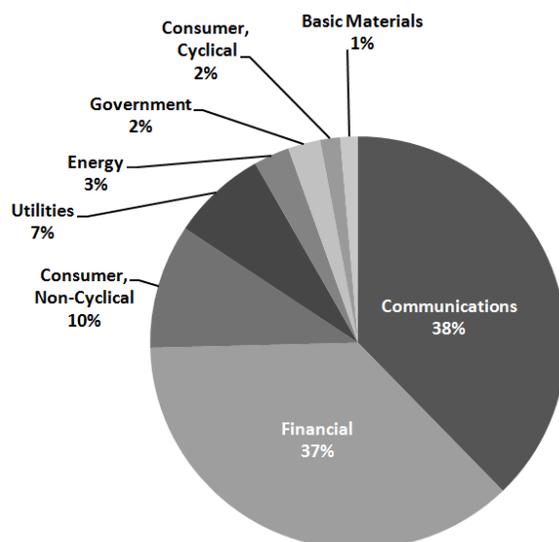
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December 31, 2013, ECIGIF Trust had \$112.8 million [2012 - \$148.8 million] short positions of government bonds and an unrealized gain of \$2.5 million [2012 - \$0.6 million] from short sales.

The breakdown of the portfolio by industry is shown in the accompanying pie chart. A detailed listing of ECIGIF Trust's security holdings is provided in the financial statements.

Portfolio Sectors



During the year, ECIGIF Trust's portfolio generated net realized and unrealized gains of \$1.3 million [2012 - \$0.2 million], including net realized and unrealized losses from derivatives of (\$1.6) million [2012 - \$0.6 million].

Revenues, Expenses and Distributions

Through the Forward Agreement, the Fund participates in interest income and other revenues earned by ECIGIF Trust and expenses of ECIGIF Trust. ECIGIF Trust earned interest income of \$1.04 per Fund unit during the year [2012 - \$0.40]. Total combined expenses, of the Fund and ECIGIF Trust for the year ended December 31, 2013 were \$0.55 per Fund unit [2012 - \$0.22]. The Fund declared monthly cash distributions to unitholders through the year at the targeted monthly rate of \$0.05 [2012 - \$0.05], which totaled \$0.60 per unit for the year [2012 - \$0.37].

Net Asset Value

As a result of the Forward Agreement, the Net Asset Value of the Fund is dependent upon the performance of ECIGIF Trust's portfolio. During the year, the Net Asset Value per unit decreased slightly, by \$0.18, from \$11.18 at December 31, 2012 to \$11.00 as at December 31, 2013 [2012 - decrease of \$0.13 from \$11.31 at inception to \$11.18].

The aggregate Net Asset Value of the Fund as at December 31, 2013 was \$113.3 million, down from \$129.5 million at December 31, 2012 due to distributions of \$6.8 million and redemptions of \$14.2 million during the year.

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Liquidity

To provide liquidity for unitholders, units of the Fund are listed on the TSX under the symbol UCF.UN. For the year, units of the Fund traded at an average discount to their Net Asset Value per unit of (0.4%) [2012 - premium 2.6%]. Investors may also redeem their units in accordance with the Fund's redemption provisions.

Redemption

The Fund had redemptions during the year of \$14.2million representing 11.1% of total units outstanding at the redemption date.

Recent Developments

Initial Public Offering and Over-Allotment Closings

The Fund completed its initial public offering ("IPO") and commenced operations and trading on May 18, 2012. On that date, the Fund issued 11,250,000 units at \$12.00 per unit for gross proceeds of \$135.00 million. The Fund closed its over-allotment option on May 30, 2012, issuing 335,000 units at \$12.00 per unit for gross proceeds of \$4.02 million, bringing the total gross proceeds to \$139.02 million. The offering costs were \$8.05 million, bringing the total net proceeds to \$130.97 million. There were no share issuances in 2013.

Forward Agreement - Character Conversion

The 2013 Federal Budget eliminated the tax benefits associated with character conversion transactions — forward sale and forward purchase agreements used by many mutual funds and other investment funds to convert the return on a portfolio of investments from fully taxable ordinary income into capital gains. A Grandfathering provision was made available for a derivative forward agreement entered into before March 21, 2013. The Fund utilizes such an arrangement to provide a tax advantaged return to its investors. The Grandfathering provision will remain in effect until the termination date of the Forward Agreement which is May 18, 2017. At that date it is anticipated that the Fund will participate directly in the returns offered by ECIGIF Trust.

Future Accounting Changes

Canadian investment entities will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for fiscal years beginning on or after January 1, 2014. As a result, the Fund will report its financial results for the interim period ending June 30, 2014, prepared on an IFRS basis. It will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2013 ("transition date").

The differences between the Fund's accounting policies under Canadian GAAP and IFRS requirements will result in measurement and recognition differences on transition to IFRS.

Significant Accounting Changes Related to the Adoption of IFRS

Based on the Manager's assessment of the accounting differences between Canadian GAAP and IFRS, the following areas of difference were identified. The areas listed below should not be considered a comprehensive list of impacts of adopting IFRS, but rather the most significant of certain key changes.

The framework for fair valuation is set out under IFRS 13 Fair Value Measurement ("IFRS 13"), which includes the requirements for the measurement and disclosure of fair value. If an asset or liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of midmarket pricing or other pricing

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conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. Thus this standard will impact the Net Assets per unit compared to current standards, and may also result in the elimination of the differences between the Net Assets per unit and Net Asset Value per unit at the financial statement reporting date. Currently, the Manager has not identified any changes that will impact net asset value per unit as a result of the transition to IFRS.

The criteria contained within IAS 32 Financial Instruments: Presentation ("IAS 32") will result in the classification of unitholders' equity as a liability within the Statements of Net Assets, unless all conditions required for equity classification are met. The Manager is currently assessing the Fund's unitholder structure to determine classification under IAS 32.

Related Party Transactions

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

Management Fees

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which the Fund pays management fees and service fees, equal on a combined basis to 0.65% per annum of the total Net Asset Value of the Fund, plus applicable taxes. The service fee is 0.40% per annum of the Net Asset Value of the Fund. The service fee is in turn paid by the Manager to investment dealers based on the proportionate number of units held by clients of each dealer at the end of each calendar quarter. During the year ended December 31, 2013, management fees and service fees amounted on a combined basis to \$2.1 million [2012 - \$0.5 million], with \$0.5 million [2012 - \$0.3 million] attributable to service fees. In addition, the Manager is responsible for providing management and administrative services to ECIGIF Trust and for paying the fees of ECIGIF Trust's Portfolio Advisor. ECIGIF Trust pays management fees equal to 1.00% per annum of the Net Asset Value of ECIGIF Trust, plus applicable taxes. The management fees and service fees from the Fund and ECIGIF Trust are used by the Manager to cover its costs for its services in connection with the management of the Fund, the cost of the Portfolio Advisor and for profit.

No Performance Fee will be charged by the Fund. The Manager is entitled to receive from the ECIGIF Trust an annual Performance Fee equal to 10% of the increase in the Net Asset Value of the ECIGIF Trust excluding distributions, subject to an annual hurdle rate of 5.30%. The Manager earned \$14,915 in Performance Fees during the year [2012 - nil] from ECIGIF Trust.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit.* The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

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Net Assets per Unit⁽¹⁾

	December 31, 2013	December 31, 2012 ⁽²⁾
Net Assets per unit, beginning of period⁽³⁾	\$11.18	\$11.31⁽⁴⁾
Increase (decrease) from operations⁽⁵⁾		
Total revenue	0.00	0.00
Total expenses	(0.10)	(0.07)
Realized gains	0.12	0.00
Unrealized gains	0.41	0.31
Total increase (decrease) in Net Assets from operations	\$0.43	\$0.24
Distributions to unitholders:⁽³⁾		
Return of capital	(\$0.60)	(\$0.37)
Total distributions to unitholders	(\$0.60)	(\$0.37)
Net Assets per unit, end of period⁽³⁾	\$11.00	\$11.18

(1) This information is derived from the Fund's audited annual financial statements.

(2) Period from May 18, 2012 (commencement of operations) to December 31, 2012.

(3) Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

(4) Issuance price was \$12.00 less issue costs of \$0.69.

(5) The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

Ratios and Supplemental Data (Based on Net Asset Value)

	December 31, 2013	December 31, 2012 ⁽¹⁾
Net Asset Value (in 000s)	\$113,340	\$129,489
Number of units outstanding (in 000s)	10,302	11,585
Management expense ratio ("MER") ⁽²⁾	2.21%	8.46%
Trading expense ratio ⁽³⁾	2.74%	0.95%
Portfolio turnover rate ⁽⁴⁾	106.2%	155.7%
Net Asset Value per unit	\$11.00	\$11.18
Closing market price	\$10.66	\$11.15

(1) Period from May 18, 2012 (commencement of operations) to December 31, 2012.

(2) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction costs) of the Fund and ECIGIF Trust for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the period. Please see the Expense Ratio section following this table for further discussion of the calculation.

(3) The trading expense ratio represents total commissions, cost of borrowing expenses and interest expenses on short sale of the Fund and ECIGIF Trust for the stated period, and is expressed as an annualized percentage of daily average Net Asset Value of the period.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities of ECIGIF Trust for the stated period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments of ECIGIF Trust during the period.

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Expense Ratio

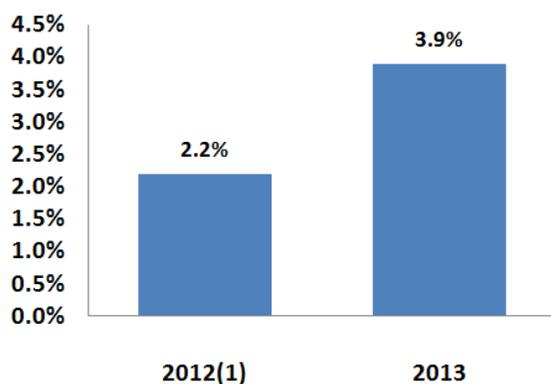
The MER of the Fund as required by NI 81-106, includes expenses of the Fund and ECIGIF Trust. In connection with the period ended December 31, 2012, the MER was 8.46% per unit and included one-time issuance costs and agents' fees related to the IPO of the Fund, which amounted to 6.20% per unit. MER, excluding interest expense, Forward Agreement fees and issuance costs, was 2.26% per unit for the period ended December 31, 2012. This latter ratio is more representative of the ongoing efficiency of the administration of the Fund.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions made by the Fund on its units in the period shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The bar chart shows the Fund's overall total return for the period since inception to December 31, 2012. The chart shows, in percentage terms, how an investment held on the first day of the fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



(1) Period from May 18, 2012 (commencement of operations) to December 31, 2012.

The following table shows the Fund's compound return for the period indicated, compared with the DEX Universe All Corporate Bond Index (PC-Bond).

The benchmark index is calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Annual Compound Returns

	December 31, 2013	December 31, 2012 ⁽¹⁾
East Coast Investment Grade Income Fund	3.9%	2.2%
DEX Universe All Corporate Bond Index (PC-Bond)	0.9%	5.6%

(1) Period from May 18, 2012 (commencement of operations) to December 31, 2012.

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For the year ended December 31, 2013, the Fund provided a positive return of 3.9% which outperformed the Fund's benchmark index, the DEX Universe All Corporate Bond Index, by 3%.

In connection with the period ended December 31, 2012, the Fund provided a positive return of 2.2%, even after taking into account the administration costs of the Fund. This underperformance against the DEX Universe All Corporate Bond Index can be attributed to the 10 week ramp up period to getting the fund fully invested following the IPO. A fairer comparison would be from September onwards when the trust was fully invested. In this four month period ECIGIF Trust outperformed the DEX Universe All Corporate Bond Index with a return of 2.43% net of fees and administration costs vs. DEX Universe return of 1.68% before fees and administration costs.

Summary of Investment Portfolio

As at December 31

Portfolio Composition ⁽¹⁾	2013	2012
Industry Sector	% of Net Asset Value	% of Net Asset Value
Financial	73.6%	103.6%
Communications	75.3%	50.5%
Utilities	14.8%	20.8%
Energy	5.6%	18.3%
Basic Materials	2.7%	7.6%
Consumer, Cyclical	3.1%	-
Consumer, Non-cyclical	19.4%	5.6%
Industrial	-	4.5%
Diversified	-	1.4%
Government, Long	5.0%	-
Government, Short	-98.8%	-114.7%
Cash and Cash Equivalents	-2.3%	0.9%
Other Net Assets	1.6%	1.5%
Total Net Asset Value	100.0%	100.0%
Total Long Positions	199.5%	214.8%
Total Short Positions	-98.8%	-114.8%

(1) Through the Forward Agreement, the Fund is exposed to the portfolio of ECIGIF Trust. This composition is based on the financial statements of ECIGIF Trust.

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Top 25 Holdings of ECIGIF Trust

Security Name	% of Net Asset Value
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Long Positions

Bell Canada 4.7% 11Sep23	10.0%
Videotron Ltd 5.625% 15Jun25	9.8%
AT&T Inc 3.825% 25Nov20	9.6%
Telus Corp 4.4% 01Apr43	8.9%
First National Financial Corp 5.07% 07May15	8.2%
Ford Credit Canada 7.5% 18Aug15	7.7%
Ford Credit Canada 3.7% 02Aug18	7.6%
Bell Aliant Regional Communications LP 6.29% 17Feb2015	7.0%
Aon Finance NS1 ULC 4.76% 08Mar18	6.9%
Royal Bank of Canada 4.35% 15Jun20	6.8%
Canada Safeway Ltd 3% 31Mar14	6.3%
Toronto-Dominion Bank Oct2104	6.0%
Bell Canada 3.35% 22Mar23	5.3%
Leisureworld Senior Care LP 4.814% 24Nov15	5.0%
Canada Government Bond 4.25% 01Jun18	5.0%
Penske Truck Leasing Canada Inc 3.65% 01Feb18	4.7%
Canadian Western Bank 3.463% 17Dec24	4.5%
Telus Corp 3.35% 01Apr24	4.4%
Shaw Communications Inc. 5.65% 01Oct19	4.3%

Short Positions

Canadian Government Bond 1.5% 01Jun23	-33.6%
Canadian Government Bond 3.75% 01Jun19	-14.2%
Canadian Government Bond 3.5% 01Jun20	-12.8%
Canadian Government Bond 12 4% 01Jun41	-11.8%
Canadian Government Bond 1.5% 01Sep17	-10.1%
Canadian Government Bond 1.25% 01Mar2018	-6.5%

*The Summary of Investment Portfolio may change due to ongoing portfolio transactions.
A quarterly update is available.*

Portfolio Advisor

East Coast Fund Management Inc. ("ECFMI"), incorporated under Business Corporations Act (Ontario) on June 22, 2009, is the portfolio advisor of two Arrow Funds – Arrow East Coast Fund and ECIGIF Trust. ECFMI is responsible for all portfolio advisory and investment management services that are provided to ECIGIF Trust.

Portfolio Advisor's Report

2013 was a constructive year for credit markets globally and an exceptional one for equity markets, although it did not pass without bouts of volatility along the way. In contrast, government bond markets did not fare well as the Fed raised the idea (May) and finally executed (December) the tapering of bond purchases intended to suppress long-term yields. We warned in our January 2013 comment that the tide had begun to turn on the 30 year bull market for interest rates. Looking back on 2013, we observe that US 10-year yields rose 76% or 130 basis points to finish the year at 3%.

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It was a year of record issuance in the Canadian corporate bond markets, with \$106 billion of deals brought to market, in excess of 30% greater volume than the previous yearly record. Companies were eager to tap the market as fears that the current low interest rate environment would not be around for much longer. In spite of this, investors digested the record supply with relative ease and excess demand in the secondary market drove spreads an average of 20 basis points tighter on the year.

As we look back on 2013, the list of potential headwinds was quite long including the US fiscal concerns, debt ceiling and sequestration effect; political flare-ups in the Middle East; uncertainty in the Eurozone around the Italian elections; and fears of a hard landing in China. Risk markets were able to shrug off these headwinds in 2013, aided by easy monetary policies from developed market central banks. We maintain the view that as unprecedented monetary stimulus by the Fed is replaced by more fundamental factors, risk markets in 2014 will face a new set of headwinds that investors will need to navigate.

2014 Outlook

Although credit spreads have narrowed over the past year, we still believe there are significant opportunities in the credit markets today. We believe the trade in the upcoming year will not be one of chasing beta as it has been as of late, but will be one where quality, sector and individual credit selection will be paramount.

As we enter 2014, volatility remains suppressed across global asset classes including equity, credit and interest rates. This is evident with the VIX trading at historic low levels and US interest rate volatility almost back at levels prior to when the word "taper" became part of investor's everyday vocabulary. We believe this speaks to the widespread bullish view and potential complacency of risk market participants today. That said, the volatility skew, or the cost of buying out-of-the-money downside protection, has been steadily rising since July which can be viewed as a sign that some investors may be becoming increasingly nervous as markets push new highs.

We will continue to hedge downside risk as we have done since inception and take advantage of current market structure to protect the portfolio in an efficient manner consistent with our objective primary of capital preservation.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof, and we assume no obligation to update or revise them to reflect new events or circumstances.

