ARROW CAPITAL MANAGEMENT INC.

Experience. Active Management.

ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

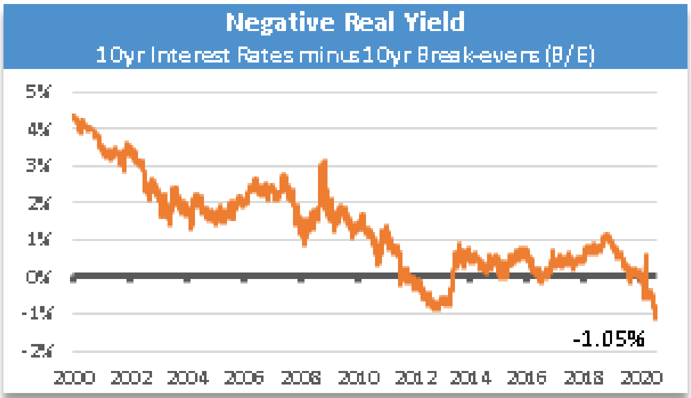
JULY 2020

The Arrow EC Income Advantage Alternative Fund returned +2.83% for the month of July and is now down -0.79% YTD.

Virtually all asset classes rallied again in July as progress was made with respect to COVID vaccines, earnings were better than analyst predictions and economic data, while still greatly depressed, came in ahead of market expectations. While US GDP contracted by an annualized rate of -32.9% in Q2, unemployment rate improved from 13.3% to 11.1% in June and consumer spending rose 7.5% with sales driven by autos, clothing, furniture and electronics. By July 31st, over half of all companies had reported earnings and while expectations had been tempered due to COVID, 84% of companies reported earnings in excess of analysts' estimates. Equities closed the month better by 4.5% in Canada (TSX Composite) and 5.6% in US (S&P 500). Interest rates rallied small, from already extremely low yield levels, with 10yr Government Bonds rallying 6bps in Canada and 13bps in the US. Investment grade (IG) credit spreads had another stellar month with Canadian credit spreads (Bloomberg Barclays Canadian IG Credit) tightening (rallying) 21bps and US credit spreads (Barclays US Aggregate Credit) rallying 16bps. Canada's relative strength had been anticipated by our Investment Team who highlighted back in May that Canada would likely catch up to the US's early outperformance post COVID given "Canadian credit spreads typically mirror US credit moves – Canada just seems to correct more slowly".

Credit Spread Performance Going Forward

While the speed of credit spread tightening (price appreciation) may slow from the whiplash recovery post COVID, the team still believes further spread tightening is likely. The unwavering commitment from central banks around the globe to support market liquidity and cap corporate funding costs has been unprecedented and we believe that under this watch it is unlikely we repeat the liquidity squeeze experienced in March over the near term. Global central bank programs should help mitigate much of that risk. We believe the massive economic stimulus programs combined with theses market purchase programs will act to limit any significant near term widening (weakening) of credit spreads. The resultant impact of global central bank measures has been downward pressure on interest rate yields. Nominal yields are now the lowest in history and real yields have dropped below zero.



Source: Bloomberg

Our investment team predicted Canadian credit spreads should start to perform relative to the US, stating in last month's commentary - "Canadian credit spreads typically mirror US credit moves – Canada just seems to correct more slowly". The chart at right shows the US IG index spreads minus Canadian IG index spreads. Canadian spreads outperformed the US by 7bps in June; however, they are still trading 18bps cheap to US spreads when compared to pre-COVID levels where they were equal (flat). This represents an additional 2% return opportunity in Canadian IG credit vs US IG credit.

Investment Grade Inflows Continue To Climb

The outflow of funds from IG corporate bonds was nothing short of massive in March as $98 billion was pulled out of IG mutual funds and ETFs at the start of COVID. Equities also saw an exodus, but bargain hunters stood in to buy stocks before investors ventured back to investment grade credit (helped significantly by the FED support commitment). Since those dark early days of COVID, Investment grade corporate funds & ETFs have seen only positive weekly inflows that have now outpaced the massive early outflows while equities markets have continued to see outflows mount as reflected in the charts below (Refinitiv Lipper US weekly mutual fund & ETF flows).

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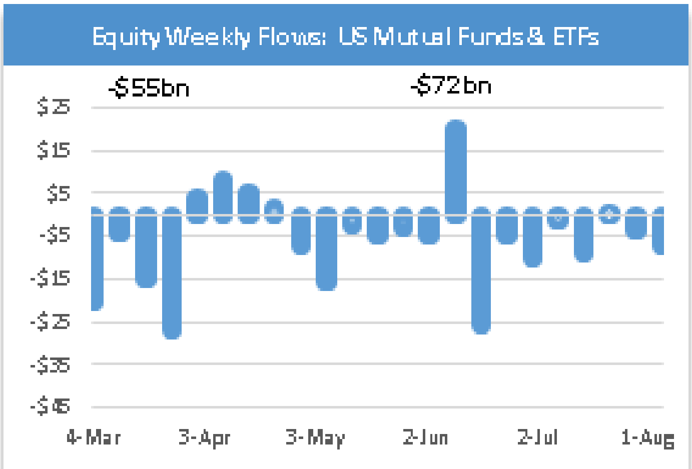
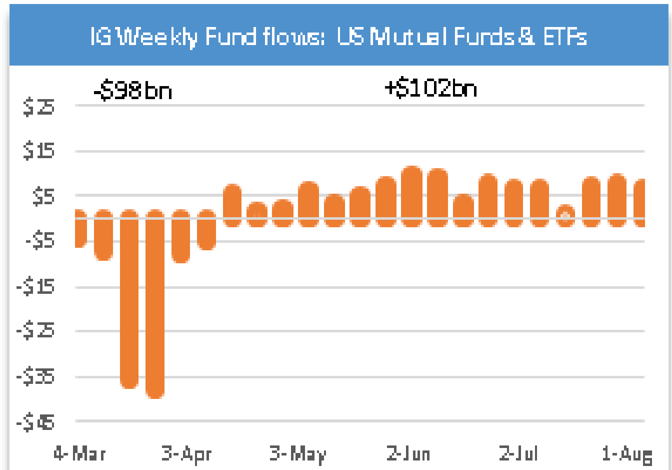


Source: Refinitiv Lipper, Financial Times, Bloomberg, Reuters



Source: Refinitiv Lipper, Financial Times, Bloomberg, Reuters

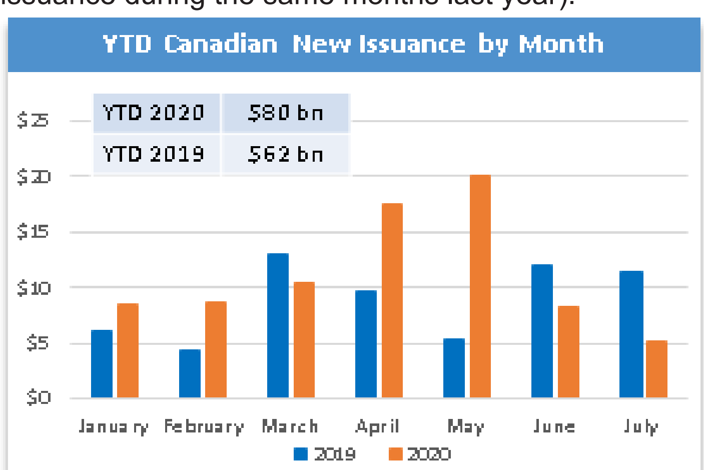
Market Snapshot

Canada		US	
Credit (Bloomberg Barclays Cdn Corporate Index)	**Rallied 21bps**	**Credit** (Barclays US Aggregate Credit Index)	**Rallied 16bps**
Equities (TSX Composite)	**4.48%**	**Equities** (S&P500)	**5.64%**
Interest Rates (GoC10yr)	**Rallied 6bps**	**Interest Rates** (TSY 10yr)	**Rallied 13bps**

Demand May Outpace Supply In Second Half 2020

When initial COVID concerns quickly morphed into panic, many investment grade corporations drew down on their banking lines of credit, which was the catalyst for the bank funding stress and resultant liquidity crisis. Once the global central banks had established purchase programs to support the Treasury, commercial paper, mortgage backed, agency and eventually corporate bond markets, investment grade companies were able to easily come to market with new issues that were gobbled up by the investor community. In the US, both the number and total issuance size of corporate bond deals YTD has shattered any previous record for the same period for both investment grade and high yield issuers. In Canada, investment grade corporate new issuance in April and May ballooned to over $37billion (or 2.5x the issuance during the same months last year).

One can naturally assume robust corporate new issuance (supply) helped offset the demand from large inflows into investment grade credit (as outlined on the previous page). That said, corporate new issuance has slowed dramatically over the last two months as cash reserves have soared on most investment grade corporate balance sheets as they better prepare for further COVID-driven weakness. The chart at right shows the record breaking supply seen in April and May as well as the much more tempered supply in June and July. Issuance expectations, especially from high quality investment grade issuers, need to be tempered as companies are now flush with liquidity and in many cases have enough liquidity to satisfy any cash demands for the next 24 to 26 months.



Negative real interest rates, continued central bank intervention, investment grade fund inflows and reduced supply (new issuance) represent four driving forces that will likely lead to further credit spread tightening (price appreciation) of investment grade credit. At current levels, the portfolio still delivers a much more compelling return opportunity for investors when compared to traditional, passive, corporate bond funds. Our Investment Team continues to actively manage the portfolio structure to capture the best risk-adjusted return for our investors. Please be sure to listen to our July podcast for further insights from our CIO.

Thank you for your continued interest in the Fund. For further information, please contact your regional Arrow Capital Management representative.

Sincerely,

East Coast Fund Management Inc.

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 the Fund had their units redesignated as Series FD Units.

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