ARROW CAPITAL MANAGEMENT INC.

Experience. Active Management.

ARROW EC INCOME ADVANTAGE ALTERNATIVE FUND

JUNE 2020

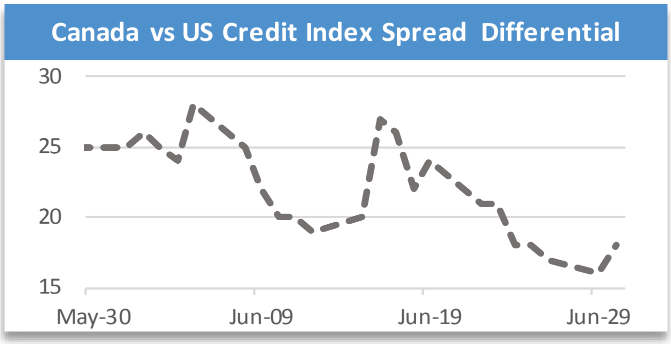
The Arrow EC Income Advantage Alternative Fund returned +3.82% for the month of June and is now down -3.52% YTD.

Equities ended June slightly higher while interest rates were entirely unchanged for a second month. Equity markets started the month quite strong but momentum stalled as investors questioned the speed of economic recovery given a spike in COVID cases as states struggled to re-open and the FED released a more subdued recovery estimate. The tech sector rallied more than 6% on both sides of the border and helped equities close the month in positive territory with US equities (S&P500) +2.0% and Canadian equities (TSX Composite) +2.5% in June. Investment grade (IG) credit spreads appeared to be the stars of the month, with Canadian credit spreads (Bloomberg Barclays Canadian IG Credit) tightening (rally) 29bps and outperforming US credit spreads (Barclays US Aggregate Credit) which rallied 22bps.

Canadian Credit Outperforms

In May's commentary we highlighted the relative underperformance of Canadian credit spreads when compared to US credit spreads. At the end of February, both indices were trading flat to one another (at 104bps) and while Canadian IG corporate credit spreads outperformed in March by 12bps, the US index rallied much faster (and more) than Canada, closing May with index spreads that were 25bps tighter (better) than Canada. The FED's much faster and more aggressive quantitative easing programs, which included sizeable IG Credit purchases, was the single largest driver of the Canada/US disparity.

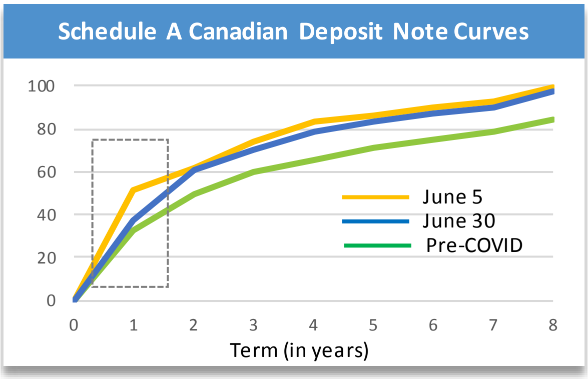
Our investment team predicted Canadian credit spreads should start to perform relative to the US, stating in last month's commentary - "Canadian credit spreads typically mirror US credit moves – Canada just seems to correct more slowly". The chart at right shows the US IG index spreads minus Canadian 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.



Source: Bloomberg

Short Dated Credit Outperforms

Since the COVID blowout in credit spreads, our investment team has been steadfast in their commitment to the quality and value of our short dated holdings. Every update and podcast has included a very simple chart of Canadian deposit note curves – the most senior and highly rated bank debt instrument – as we believed it most clearly highlighted the huge dislocation between term of security and spread. The curves went completely flat in the COVID liquidity crisis and we consistently said we were happy to hold tight until short dated credit rallied and curves re-steepened.



The value of the fund's extremely short dated holdings was especially evident in June, as sub 2yr credit outperformed. The chart at left is the same deposit note credit curve graph with end of June spreads (blue line) vs early June spreads (orange). Spreads barely rallied in 2-8 year maturities, but under 2yr spreads rallied far more (moved lower) as curves finally re-steepened in the very front end close to pre-COVID levels (green line). With 10yr and under interest rates mostly trading sub 0.5%, traditional fixed income funds, particularly money market funds, are being forced to reach for yield to cover their fees and expenses and still aim to deliver a positive return to investors. Short dated, high quality, corporate bonds appeared to be very in demand in June.

Canadian Credit Opportunity Remains

It wasn't just the shortest dated positions in our portfolio that saw significant outperformance. Our portfolio is currently comprised of 50% BBB or lower and 50% single-A or higher rated investments. Investors will remember this BBB or lower category was closer to 57% in late 2019 but the investment team had decided to upgrade our holdings and by January the BBB or lower category was 50%. The team never expected COVID or the indiscriminate weakening of ALL credit (not just longer dated, lower quality names); however, the foresight to shorten average term and increase credit quality has paid off for investors over the last three months. To put it in perspective, the average holding within XCB (iShares Corporate Bond Index ETF) rallied 26bps and the average holding within our portfolio rallied 50bps in June. The team is able to take profit, or mature, some of our short dated names, leaving lots of flexibility to start selectively adding investment grade exposure that has lagged and should outperform in the coming months.

Market Snapshot

Canada		**US**	
Credit (Bloomberg Barclays Cdn Corporate Index)	**Rallied 29bps**	**Credit** (Barclays US Aggregate Credit Index)	**Rallied 22bps**
Equities (TSX Composite)	**2.46%**	**Equities** (S&P 500)	**1.99%**
Interest Rates (GoC 10yr)	**Unchanged**	**Interest Rates** (TSY 10yr)	**Unchanged**

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.