

ARROW GLOBAL ADVANTAGE FUND

Q 4 2 0 1 9

The Arrow Global Advantage Fund returned 0.24% for the fourth quarter and was down -1.39% for the year.

	Q1	Q2	Q3	Q4	YTD
S&P 500	13.07%	3.79%	1.19%	10.84%	28.88%
S&P TSX 60	11.66%	2.10%	3.26%	1.09%	18.11%
Nikkei 225	5.95%	0.33%	2.26%	9.66%	18.20%
STOXX Euro	11.67%	3.64%	2.76%	6.71%	24.78%
ASX	9.46%	7.09%	1.05%	0.78%	18.38%
Emerging Markets	9.56%	-0.31%	-5.11%	11.27%	15.42%
MSCI World Index	11.88%	3.35%	0.08%	9.88%	25.19%
US 10 YR	2.16%	3.36%	1.85%	-1.04%	6.32%
German 10 YR	2.65%	1.88%	1.75%	-3.06%	0.03%
BAML Hyield	5.41%	1.27%	2.02%	-0.99%	7.72%
FTSE CAD Universe Bond	3.91%	2.51%	1.19%	-0.85%	6.87%
Gold	0.77%	9.07%	4.47%	4.00%	18.31%
WTI Oil	22.20%	-4.10%	10.48%	-3.90%	24.68%
Copper	8.68%	-7.55%	-4.47%	6.85%	3.50%
Ags (DBA)	-2.77%	0.61%	-4.28%	4.21%	-2.24%
USD/CAD	-2.11%	-1.90%	1.11%	-1.84%	-4.74%
AUD/USD	0.67%	-1.07%	-3.85%	3.85%	-0.40%
USD/JPY	1.07%	-2.72%	0.21%	0.45%	-0.98%
EUR/USD	-2.17%	1.38%	-4.17%	2.74%	-2.22%

The quarter was highlighted by a steep rise in equity markets and a corresponding drop in bond prices – a complete reversal of Q4 2018. We articulated our defensive positioning relating to lower GDP growth and rising, albeit slowly, inflation during all 2019 - this was proven to be the correct economic analysis with long duration yields in the U.S. falling to their lowest level since 2016 and gold continuing its rise. Equities continue to defy economic gravity and virtually all of the gains can be attributed to expanding PE multiples, the result of a very accommodative Fed and other global central bankers. In particular, growth equities have done spectacularly well as investors “chase” growth at almost any price in a slowing growth environment. This, coupled with a continued dramatic move into passive ETFs and indices, has resulted in amazing gains for the largest 5 or 6 companies in the U.S. – Apple, Microsoft, Google, Facebook, JP Morgan, etc. Let’s review our positioning of the two components of our portfolio. Our global macro and global long/short positions.

Global Macro Portfolio

	Gross	Net
Equity Indices	22.1%	-9.5%
Bonds	41.4%	38.6%
Commodities	<u>15.1%</u>	<u>15.1%</u>
Net	78.7%	44.2%
FX Pairs	<u>0.1%</u>	
TOTAL MACRO	44.3%	

Equity Indices/Futures

Our equity exposures in the 4th quarter were net long with our emphasis on Canadian energy, European equities, REITs, and utilities. On the short side, we continued to be negative on Small Cap stocks, lower quality Financials and select Consumer Discretionary equities.

Fixed Income

Our fixed income exposures continue to be a core position in the portfolio. We moved up in duration towards the middle of the curve as well as purchasing some TIPs due to our call on accelerating inflation. It looks like the market is telling the FED that growth remains lack luster and neutral interest rate policy is much more appropriate compared with the hawkish stance of 2018. On the short side we have some small positions in high yield bonds and some leveraged loan puts. As the cycle continues to drag on, we will be keeping a close eye on corporate spreads.

Commodities

The big change from Q3 to Q4 was our addition of gold and, to some extent, silver to the Fund. This was expressed with some gold Futures and select miner equities. We are positive on gold as a currency that will trade higher on falling real yields in the US and a lower USD. In conjunction with our view on accelerating inflation, we became more constructive on energy in Q4 with some small positions in crude.

Foreign Exchange

In Q4 we established a position in the pound given the better visibility regarding Brexit and the outcome of the election. We also have taken a position long position in the EUR given our view on European growth starting to inflect. We maintained our long JPY position as a small risk off hedge and took a small position in Bitcoin.

Global Sector Portfolio

At the end of the year, our global sector long/short exposures were as follows:

SECTOR EXPOSURE	NET	GROSS	LONG	SHORT
Communication Services	0.7%	3.9%	2.3%	-1.6%
Consumer Discretionary	0.9%	7.0%	3.9%	-3.0%
Consumer Staples	1.0%	2.3%	1.7%	-0.6%
Energy	4.7%	4.9%	4.8%	-0.1%
Financials	0.9%	7.9%	4.4%	-3.5%
Health Care	4.9%	5.1%	5.0%	-0.1%
Industrials	0.4%	5.9%	3.1%	-2.7%
Information Technology	2.8%	5.8%	4.3%	-1.5%
Materials	3.6%	5.1%	4.4%	-0.8%
Real Estate	3.8%	4.1%	4.0%	-0.2%
Utilities	2.0%	2.0%	2.0%	0.0%
EQUITIES TOTAL	25.7%	53.9%	39.8%	-14.1%
Equity Indices	-9.5%	22.1%	6.3%	-15.8%
Bonds	38.6%	41.4%	40.0%	-1.4%
Commodities	15.1%	15.1%	15.1%	0.0%
Sub-Total	44.2%	78.7%	61.4%	-17.3%
TOTAL	69.8%	132.6%	101.2%	-31.4%
FX	0.1%			

Our sector exposures remained defensive in Q4 but we have become more positive on certain sectors entering 2020. In terms of sectors of note, we have been net long utilities, REITs, healthcare, and communications while being net short industrials, consumer discretionary, and financials. In each case, we have had both longs and shorts in all sectors with no sector greater than 5% net either long or short i.e. we have tried to focus on generating alpha in this portfolio by security selection and net sector tilts.

One new sector where we became more constructive on in Q4 is energy. Clearly there are a number of moving parts including global demand and underinvestment as well as geopolitical issues. Valuations appear to be very attractive and we have seen some positives notes coming from large institutional research firms. Some large Canadian companies have very attractive dividend yields and are generating significant cash flow allowing us to be patient as more investors return to the beaten down sector.

Some Final Thoughts

While we are disappointed with our performance last year, we believe that both volatility and asset class dispersion will re-emerge with a vengeance in 2020. We have gone another 65 days with the S&P 500 not having a one day fall of over 1% - amazing – and a testament to the power of FOMO (fear of missing out), low real interest rates, and incredible complacency around geopolitical and economic realities. We look forward to reporting back at the end of Q1 2020 with our next update and hopefully decent investment results.

Yours sincerely,

Jim McGovern



Jim McGovern
Managing Director & CEO



Ted Whitehead
Senior Portfolio Manager



Ahson Mirza
Portfolio Manager

Effective January 1, 2019, the fund was renamed Arrow Global Advantage Fund.

Effective January 1, 2015, this fund was renamed Arrow Global Growth Fund and James McGovern was appointed as the sole portfolio manager. Prior to January 1, 2015, the fund was managed by different teams with substantially different investment parameters. For a complete history of this fund, including returns, please contact Arrow Capital Management Inc. Unless otherwise stipulated returns are net of all fees, in Canadian dollars, reflect class "F" units and assume reinvestment of all distributions.

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