

ARROW GLOBAL ADVANTAGE FUND

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The Arrow Global Advantage Fund was down -2.08% in the first quarter of 2019. Please see the summary below for the various returns of asset classes.

	Q2 2018	Q3 2018	Q4 2018	2018Y	Q1 2019
Equities					
MSCI World Index	1.70%	5.00%	-13.40%	-8.70%	12.50%
S&P 500	3.40%	7.70%	-13.50%	-4.40%	13.60%
S&P TSX 60	6.80%	-0.60%	-10.10%	-8.90%	13.30%
Nikkei 225	4.20%	8.90%	-16.80%	-10.30%	6.90%
STOXX Euro	2.90%	0.40%	-11.50%	-12.00%	12.20%
ASX	8.50%	1.50%	-8.20%	-2.80%	10.90%
Emerging Markets	-8.00%	-1.10%	-7.50%	-14.60%	9.90%
Fixed Income					
US 10 YR	-0.08%	-0.73%	3.76%	0.97%	2.93%
German 10 YR	1.65%	-0.94%	2.02%	2.69%	2.65%
BAML Hyield	1.00%	2.44%	-4.67%	-2.26%	7.40%
FTSE CAD Universe Bond	0.51%	-0.96%	1.76%	1.41%	3.91%
Commodities					
Gold	-5.50%	-4.90%	7.70%	-1.60%	0.80%
WTI Oil	11.50%	8.40%	-35.50%	-20.90%	29.30%
Copper	-1.30%	-5.60%	-4.70%	-17.70%	8.70%
Ags (DBA)	-4.10%	-6.20%	0.20%	-9.70%	-2.80%
Currencies					
USD/CAD	1.81%	-1.71%	5.65%	8.48%	-2.11%
AUD/USD	-3.57%	-2.44%	-2.42%	-9.73%	0.67%
USD/JPY	4.22%	2.65%	-3.53%	-2.66%	1.07%
EUR/USD	-5.19%	-0.68%	-1.18%	-4.48%	-2.17%

Source: Bloomberg

The first quarter was essentially the reverse of the 4th quarter of 2018. What went down the most in 2018 was up the most in 2019. While we had a superb quarter of outperformance in Q4 2018, this past quarter was disappointing. What happened?

Our biggest issue was that a good deal of the economic (GDP etc.) and market data (CoT) we normally have at hand was not available due to the U.S. government shutdown. We ended up being 'too negative' in our net positioning by over staying our short bias in equities. Our fixed income performed as expected but other investments including being short the Canadian Dollar, net short Canadian equities and U.S. Small cap stocks lost money. Our second issue was misreading how dovish the FED would pivot in January – no less than 3 times publicly – to the point where the market in March were predicting a cut in rates by the end of 2019. By eliminating not only future rate hikes and Quantitative Tightening, the Powell Put went into full effect. The only issue left of concern for investors is global growth slowing. Investors however seem to be “looking over the valley” as Chinese stimulus and the pending U.S./China trade deal potentially auger for better growth in the second half of 2019 – count us as skeptical as the data continues to say otherwise.

Our process, which is top down driven, is constantly updated with economic data that shapes our future expectations for both real YoY GDP and headline YoY CPI. The data is now signalling continued slowing U.S. GDP with steadily rising inflation from Q2 through to year end 2019. We expect a mildly stagflation type environment which features very different asset and sector allocations versus the last few quarters.

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That being said, this environment will not make itself evident until later this summer – so this Q2 will be a transition period for the Fund.

As we have noted before, we have two sub-portfolios (or “books”) within the Fund, GLOBAL MACRO and GLOBAL LONG/SHORT SECTORS. We will review our positioning in each going forward.

Global Macro Portfolio (115%)

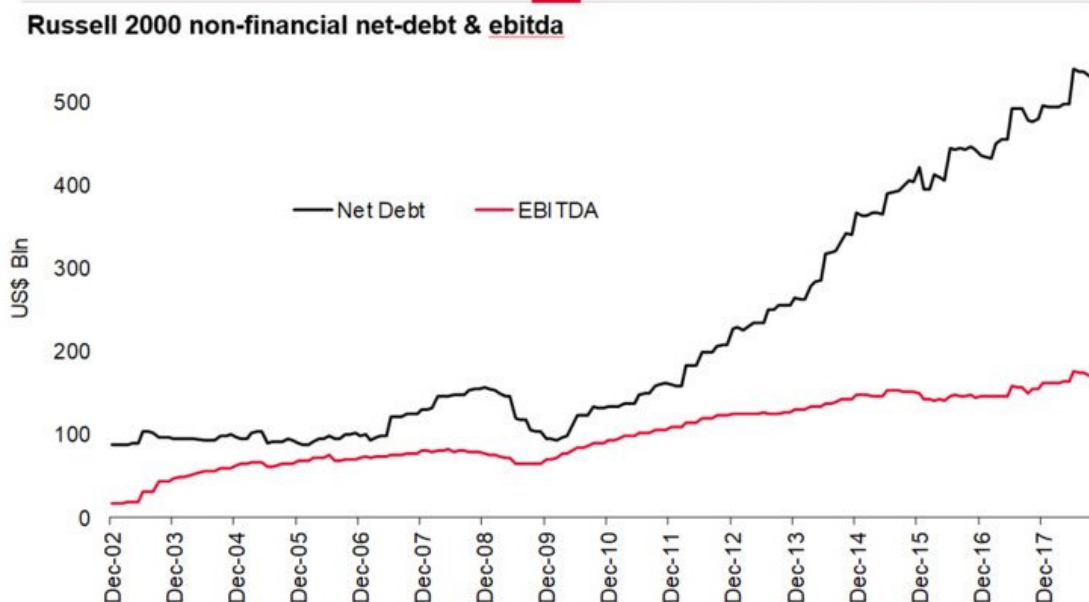
	Gross	Net
Equity Indices	23.1%	-10.2%
Bonds	62.8%	58.8%
Commodities	4.7%	4.7%
Net	90.6%	53.2%
FX Pairs	24.2%	
TOTAL MACRO	114.7%	

Source: Arrow Capital Management

Equity Indices/Futures

Over the next few months we will be moving to a more dollar neutral net positioning from being outright net short equities. However, given our stagflation style economy, our focus will be on investing in quality companies that feature good growth, low leverage, low beta and low earnings variability. For example, we will be long the Russell 1000 Growth Index and short the Russell 1000 Value Index. We will remain short the Russell 2000 (small cap) Index as it features high leverage and very poor earnings and will be long low beta and low volatility U.S. equities. In terms of global positioning, we have started to invest in Emerging Markets equities and select Emerging Market countries long (Taiwan, Hong Kong) and short (Brazil). We are becoming less bearish on Europe as our models have an economic turn in Q4 of this year. We have covered most of our shorts and are now long a small percentage of German and Spanish equities.

THE BUILD-UP OF US SMALLCAP DEBT IS SIGNIFICANT



Source: SG Cross Asset Research/Equity Quant, Company Report and Accounts

Source: SG Cross Asset Research/Equity Quant

Fixed Income

On the fixed income side, we will continue to be long U.S. treasuries albeit with shortened duration this quarter. It might seem odd to be long bonds given our expectation for rising inflation – here we expect the yield curve to continue to flatten and eventually invert (10's – 2's). Our target yield for the U.S. 10-year treasury is 2.25% before year-end. We will also invest in Emerging Markets USD sovereign debt and investment grade bonds while starting to more aggressively short high yield debt. We expect junk spreads to widen as GDP growth slows and corporate earnings wane – especially for cyclical industries. With inflation expected to tick higher, U.S. TIP's will also be part of our fixed income portfolio.

Foreign Exchange

In foreign exchange, we have reduced our Canadian Dollar short to the 10% range because we expect energy prices to be firm this year. We do expect the U.S. Dollar to fall but not until later this summer as evidence that U.S. GDP is continuing to slow. Emerging Market FX will also start to look more interesting as well.

Commodities

Finally, in commodities, we like gold (as real yields in the U.S. fall) and energy (as global inventories turn to a deficit) for the remainder of the year as they typically do well in this type of economy.

Global Sector Portfolio (55%)

SECTOR EXPOSURE	NET	GROSS	LONG	SHORT
Communication Services	0.3%	1.4%	0.9%	-0.6%
Consumer Discretionary	-1.9%	10.0%	4.0%	-6.0%
Consumer Staples	0.4%	2.9%	1.6%	-1.3%
Energy	5.8%	6.3%	6.1%	-0.2%
Financials	-2.9%	7.4%	2.2%	-5.2%
Health Care	0.7%	2.8%	1.7%	-1.0%
Industrials	-2.6%	6.2%	1.8%	-4.4%
Information Technology	1.1%	5.3%	3.2%	-2.1%
Materials	0.9%	5.7%	3.3%	-2.4%
Real Estate	3.9%	4.3%	4.1%	-0.2%
Utilities	2.8%	2.8%	2.8%	0.0%
Equities Total	8.5%	55.0%	31.7%	-23.3%

Source: Arrow Capital Management

From a sector standpoint, energy has become an important part of the long portfolio. Our focus has been on high quality majors in North America and internationally with relatively low leverage and solid free cash flow yields. We also have a portfolio of high-quality E&P names. Utilities and REIT's remain important parts of our industry exposure as does technology going forward.

Our short focus is on financials, industrials, materials and consumer staples. Essentially, we are short the cyclical sectors given our outlook for real GDP. Consumer related stocks are likely to be negatively impacted by rising input costs – especially labour – so we remain short restaurants and levered staples companies.

Some Final Thoughts

Clearly we are not pleased to be either down year to date and be down in such a strong equity market. That being said it is early in the year and there is plenty of time for our positioning to generate good alpha

with low correlation and volatility.

Finally, if you do not already receive our weekly commentaries, please speak to your Arrow representative to add you to our distribution list. Every week we detail ideas/thoughts and events/data pertaining to the Fund.

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

Yours sincerely,



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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