*This short form base shelf prospectus has been filed under legislation in each of the provinces and territories of Canada, other than the province of Quebec, that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, and, subject to certain exemptions, will not be offered or sold within the United States or to U.S. persons.*

*Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Arrow Capital Management Inc. at its head office located at 36 Toronto Street, Suite 750, Toronto, Ontario M5C 2C5 or by calling 1-877-327-6048 and are also available electronically at www.sedar.com.*

# SHORT FORM BASE SHELF PROSPECTUS

<u>*New Issue*</u> April 25, 2017

# EAST COAST INVESTMENT GRADE INCOME FUND

ARROW CAPITAL MANAGEMENT INC.
(Manager and Promoter)

EAST COAST FUND MANAGEMENT INC.
(Portfolio Advisor)

**$200,000,000**
**Units**

During the 25 month period that this short form base shelf prospectus, including any amendments hereto, remains effective, East Coast Investment Grade Income Fund (the "**Fund**") may, from time to time, offer and issue units of the Fund (the "**Units**") in an aggregate principal amount of up to $200,000,000. Units may be offered in such amount as may be determined in light of market conditions. The specific terms of the Units in respect of which this short form base shelf prospectus is being delivered will be set out in one or more prospectus supplements (each, a "**Prospectus Supplement**") to be delivered to purchasers together with this short form base shelf prospectus, and may include, where applicable, the aggregate offered amount, the number of Units offered, the issue price, the distributions, the distribution payment dates and any terms for redemption at the option of the Fund or the holder. Each such Prospectus Supplement will be incorporated by reference into this short form base shelf prospectus for the purposes of securities legislation as of the date of each such Prospectus Supplement and only for the purposes of the distribution of the Units to which such Prospectus Supplement pertains.

The Fund is a closed-end investment fund established under the laws of the Province of Ontario. The Fund was established to provide holders of Units of the Fund (the "**Unitholders**") with investment exposure to a diversified portfolio (the "**Portfolio**") comprised primarily of investment grade debt securities (both long and short positions) 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. See "*Investment Objectives*" and "*Investment Strategies*".

The Fund seeks to achieve the following investment objectives:

(i) to maximize total returns to the Unitholders while reducing risk; and

(ii) to provide Unitholders with attractive monthly distributions. See "*Investment Objectives*".

Arrow Capital Management Inc. ("**Arrow**" or the "**Manager**") is the trustee, manager and promoter of the Fund. East Coast Fund Management Inc. ("**East Coast**" or the "**Portfolio Advisor**") is the portfolio advisor to the Fund and the Portfolio will be actively managed by East Coast.

The Fund may sell Units to or through underwriters or dealers or directly to investors or through agents. The Prospectus Supplement relating to the Units offered by the Fund will identify each person who may be deemed to be an underwriter with respect to such Units and will set forth the terms of the offering of such Units, including, to the extent applicable, the offering price, the proceeds to the Fund, the underwriting commissions and any other fees, discounts or concessions to be allowed to dealers. The lead underwriter or lead agent or underwriters or agents with respect to the Units sold to or through underwriters will be named in the related Prospectus Supplement. The underwriters or agents may over-allot or effect transactions which stabilize or maintain the market price of the Units offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "*Plan of Distribution*".

The Fund's outstanding Units are listed on the Toronto Stock Exchange ("**TSX**") under the symbol ECF.UN. On April 24, 2017 the closing price on the TSX of the Units was $9.87.

An investment in the Units involves a degree of risk. It is important for prospective purchasers to consider the risk factors described in this short form base shelf prospectus. See *"Risk Factors"*.

All shelf information permitted under applicable law to be omitted from this short form base shelf prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this short form base shelf prospectus. Each Prospectus Supplement that will be incorporated by reference into this short form base shelf prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Units to which the Prospectus Supplement pertains.

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## FORWARD-LOOKING STATEMENTS

This short form base shelf prospectus contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "estimates", "intends", "anticipates" or "believes", or variations (including negative and grammatical variations) of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Fund's (as defined herein) actual results, performance or developments to be materially different from any future results, performance or developments expressed or implied by the forward-looking statements.

While the Fund, as well as the Manager and the Portfolio Advisor, anticipate that subsequent events and developments may cause its views to change, the Fund, the Manager and the Portfolio Advisor specifically disclaim any obligation to update these forward-looking statements, except as required by applicable law. These forward-looking statements should not be relied upon as representing the Fund's, the Manager's and the Portfolio Advisor's views as of any date subsequent to the date of this short form base shelf prospectus. Although the Fund, the Manager and the Portfolio Advisor have attempted to identify important factors that could cause actual results, performance or developments to differ materially from those described in forward-looking statements, there may be other factors that cause results, performance or developments not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results, performance or developments could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Fund. Additional factors are noted under "*Risk Factors*" below.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar authorities in each of the provinces and territories of Canada are specifically incorporated by reference and form an integral part of this short form base shelf prospectus:

(a) the annual information form of the Fund dated March 29, 2017 for the year ended December 31, 2016;

(b) the annual financial statements of the Fund dated March 24, 2017, together with the accompanying report of the auditor, for the years ended December 31, 2016 and December 31, 2015;

(c) the management report of fund performance of the Fund dated March 24, 2017 for the year ended December 31, 2016;

(d) the management information circular of the Fund dated March 16, 2017 relating to a special meeting of Unitholders held on April 13, 2017; and

(e) the material change report of the Fund dated April 17, 2017.

Any of the documents of the type referred to above, including any material change reports (excluding confidential material change reports), annual information forms, interim and annual financial statements and related management reports of fund performance, business acquisition reports and information circulars filed by the Fund with a securities commission or similar authority in Canada after the date of this short form base shelf prospectus and prior to the termination of an offering of Units, will be deemed to be incorporated by reference in this short form base shelf prospectus.

**Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded, for purposes of this short form base shelf prospectus, to the extent that a statement contained herein or in any other subsequently filed document that also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other**

**information set forth in the document that it modifies or supersedes. The making of such modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form base shelf prospectus.**

Upon a new annual information form, semi-annual or annual financial statements and management report of fund performance being filed with and, where required, accepted by the applicable securities regulatory authorities during the currency of this short form base shelf prospectus, the previous annual information form, semi-annual or annual financial statements and management report of fund performance and all material change reports filed prior to the commencement of the then current fiscal year will be deemed no longer to be incorporated into this short form base shelf prospectus for purposes of future offers and sales of Units hereunder.

A Prospectus Supplement containing the specific terms of an offering of Units will be delivered to purchasers of such Units together with this short form base shelf prospectus and will be deemed to be incorporated into this short form base shelf prospectus as of the date of such Prospectus Supplement but only for purposes of the offering of Units covered by such Prospectus Supplement.

# THE FUND

## The Fund

The Fund, East Coast Investment Grade Income Fund, is a closed-end investment fund formed as a trust under the laws of the Province of Ontario pursuant to an amended and restated declaration of trust dated as of April 17, 2017, as may be further amended (the "**Declaration of Trust**"), that has issued redeemable and transferable Units. Arrow is the trustee, manager and promoter of the Fund. The principal office of the Fund and the Manager is located at 36 Toronto Street – Suite 750 Toronto, Ontario, M5C 2C5. The fiscal year-end of the Fund is December 31.

In May 2012, the Fund completed its initial public offering of 11,585,000 Units at a price of $12.00 per Unit and pursuant to a prospectus dated April 26, 2012. The total gross proceeds raised by the Fund in connection with its initial public offering were approximately $139 million. The Units are listed on the TSX under the symbol ECF.UN.

## Reorganization of the Fund

At a special meeting of holders of Unit ("**Unitholders**") held on April 13, 2017 (the "**Special Meeting**"), Unitholders approved changes to the Fund's investment structure in connection with the final settlement of a forward purchase agreement (the "**Forward Agreement**") the Fund had with the Bank of Nova Scotia, as counterparty, in response to amendments to tax laws and approved changes to the Fund's fee structure designed to improve the economics for Unitholders. At the Special Meeting, Unitholders approved an extraordinary resolution to amend the Declaration of Trust to:

(i) extend the scheduled termination date of the Fund until May 31, 2022;
(ii) amend the investment objectives, investment strategies and investment restrictions of the Fund to reflect generally the investment objectives, investment strategies and investment restrictions of ECIGIF Trust, being the underlying investment fund that the Fund previously obtained exposure to through the Forward Agreement, to allow the Fund to hold the Portfolio directly;
(iii) amend the management agreement between the Fund and Arrow dated as of April 26, 2012 in order to: (a) change the structure of the management fees payable by the Fund to be a single management fee of 1.25% per annum on the net asset value ("**NAV**") of the Fund; (b) remove the 0.40% service fee payable to registered advisors; (c) change the structure and amend the performance fee the Fund is subject to, such that Performance Fee (as defined herein) is based on the performance of the Fund and the NAV of the Fund and subject to a Hurdle Rate (as defined herein) of 4.00%;
(iv) create a special redemption right to allow Unitholders to redeem Units on May 18, 2017 by giving notice that they wish to exercise such right on or prior to 5:00 p.m. (Toronto time) on April 28, 2017;
(v) amend the annual redemption date to the last business day of May in each year beginning in May 31, 2018;
(vi) remove the requirement to seek Unitholder approval for a change in auditors; and
(vii) remove the requirement to seek Unitholder approval for a permitted merger.

## Status of the Fund

The Fund is a non-redeemable investment fund that is a reporting issuer under the securities legislation of all the provinces and territories of Canada, but is not a (conventional) "mutual fund" under applicable Canadian securities legislation. Consequently, the Fund is subject to the various policies and regulations that apply to non-redeemable investment funds that are reporting issuers, including parts of National Instrument 81-102 *Investment Funds* ("**NI 81-102**"), but the Fund is not subject to certain policies and regulations that apply to publicly offered conventional mutual funds, notably National Instrument 81-101 *Mutual Fund Prospectus Disclosure*.

## INVESTMENT OBJECTIVES

The Fund seeks to achieve the following investment objectives:

(i) to maximize total returns to the Unitholders while reducing risk; and

(ii) to provide Unitholders with attractive monthly cash distributions.

The Fund will seek to achieve these investment objectives by holding the Portfolio comprised primarily of investment grade debt securities (both long and short positions) 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 "**Investment Grade Debt**"). The Portfolio may also include non-investment grade debt securities (no more than 12.5% of net assets) and may invest in other asset classes in connection with the Macro Systemic Risk Protection Program (as defined below). See "*Investment Strategies*".

The return to the Unitholders and the Fund will be dependent upon the economic performance of the Portfolio. The Portfolio will be actively managed by East Coast.

## INVESTMENT STRATEGIES

In managing the Portfolio, the Portfolio Advisor will:

(i) seek to maximize risk-adjusted returns and preservation of capital in each stage of the credit cycle; and

(ii) seek to protect the Portfolio from interest rate risk associated with higher nominal interest rates and systemic risk through four specific portfolio strategies set forth below.

The Portfolio Advisor implements four specific portfolio management strategies for managing the Portfolio: (i) the core credit portfolio strategy (the "**Core Credit Portfolio Strategy**"); (ii) the relative value trading strategy (the "**Relative Value Trading Strategy**"); (iii) the active credit trading strategy (the "**Active Credit Trading Strategy**"); and (iv) the macro systemic risk protection program (the "**Macro Systemic Risk Protection Program**"). The Core Credit Portfolio Strategy, the Relative Value Trading Strategy and the Active Credit Trading Strategy are designed to generate positive returns, whereas the Macro Systemic Risk Protection Program is designed to protect the Portfolio against systemic market risk shocks thereby reducing return volatility and increasing risk adjusted returns.

### (1) Core Credit Portfolio Strategy

Strategy

As part of the Core Credit Portfolio Strategy, the Portfolio Advisor primarily invests in Investment Grade Debt of Canadian corporate issuers. Acquiring Investment Grade Debt carries two specific risk characteristics: (i) the risk that interest rates will rise; and (ii) the risk that credit spreads will widen. The principal objective of the Core Credit Portfolio Strategy is to generate returns from investing in a diversified portfolio of investment grade bonds while simultaneously reducing or eliminating the interest rate exposure associated with these investments. The Portfolio Advisor believes that the current low level of interest rates offers an immaterial return and significant risk of capital erosion when interest rates and inflation rise. The objective of the Portfolio Advisor's risk management process for the Core Credit Portfolio Strategy is to protect the Portfolio from this risk of capital erosion by carrying out a shorting strategy. Each time a corporate bond is added to the Portfolio the Portfolio Advisor will sell a risk weighted amount of Government of Canada bonds of similar maturity to hedge the interest rate risk of the new corporate bond added to the Portfolio. This will ensure that the risk of rising inflation and interest rates is largely hedged.

The Core Credit Portfolio Strategy seeks to have exposure to a highly diversified (between 30 and 65 individual credits) portfolio of primarily Investment Grade Debt of Canadian corporate issuers. Substantially all securities that form part of the Core Credit Portfolio Strategy will be denominated in Canadian dollars.

Allocation

The Portfolio Advisor estimates that the Core Credit Portfolio Strategy will represent between 0% and approximately 60% of the NAV of the Fund from time to time.

**(2) Relative Value Trading Strategy**

Strategy

The Relative Value Trading Strategy focuses on generating returns from valuation differences between individual Investment Grade Debt securities. The Portfolio Advisor will constantly monitor the market to identify dislocations in the market where one Investment Grade Debt security is overvalued and a related security is undervalued. Such opportunities could arise in debt securities of two separate companies in the same sector, different levels of debt securities in the capital structure of the same company or a combination of the two situations. Such opportunities are identified through the Portfolio Advisor's detailed credit and quantitative analysis to determine how overvalued or undervalued the respective securities are. The Portfolio Advisor will make additions to the Portfolio by adding the undervalued security and selling the overvalued security with the goal of capturing the relative price dislocation over a period of approximately three months. This strategy is called the Relative Value Trading Strategy because the combination of the purchase of one security and the sale of another reduces or moderates the impact on the Portfolio of any changes in the broader market. Instruments used in the Relative Value Trading Strategy could be any type of corporate debt, exchange-traded derivatives and/or over-the-counter derivatives.

Allocation

The Portfolio Advisor estimates that the Relative Value Trading Strategy will represent between 0% and approximately 30% of the NAV of the Fund from time to time.

**(3) Active Credit Trading Strategy**

Strategy

The Portfolio Advisor's Active Credit Trading Strategy focuses on earning a liquidity premium by providing both dealers and corporate issuers with liquidity on newly issued debt securities and block trade opportunities. The primary objective of the Active Credit Trading Strategy is to take advantage of opportunistic supply and demand imbalances in the credit markets. This is a relationship-based strategy where the Portfolio Advisor is able to utilize its relationships with major corporate issuers and the dealer community in the Canadian debt securities market.

Instruments used in the Active Credit Trading Strategy are almost entirely Investment Grade Debt of corporate and government issuers.

Allocation

The Portfolio Advisor estimates that the Active Credit Trading Strategy will represent between 0% and approximately 35% of the NAV of the Fund from time to time.

**(4) Macro Systemic Risk Protection Program**

Strategy

The Portfolio Advisor's Macro Systemic Risk Protection Program is not a standalone strategy designed to produce returns. Instead the Macro Systemic Risk Protection Program seeks to reduce losses to the Portfolio during periods of severe systemic shocks. With the objective of protecting the entire Portfolio from severe systemic shocks, the Macro Systemic Risk Protection Program will often overlay or be integrated into the Portfolio Advisor's three other investment strategies.

The Macro Systemic Risk Protection Program will involve anticipating price trends and spread movements based on overall economic, political and market conditions. The foundation of the Macro Systemic Risk Protection Program is the Portfolio Advisor's systemic risk stress tests where the Portfolio Advisor will stress test the Portfolio through all the significant historical market moving events (e.g. the 2008 financial crisis, the stock market crash in 1987, the impact of the 9/11 terrorist attacks, the Asian crisis in 1997 and the Russian default in 1998) and approximately 100 other hypothetical events that the Portfolio Advisor has devised to give it confidence that it has modelled the most common impacts that most systemic risk events can have on the Portfolio.

The Portfolio Advisor will continuously assess the Portfolio and if deemed appropriate take steps to protect the Portfolio from certain such market events. The Portfolio Advisor utilizes various instruments or techniques in implementing the Macro Systemic Rick Protection Program, including, without limitation: (i) short positions on the equity market (either index futures or put/call options); (ii) foreign exchange option hedges; (iii) long or short positions in credit indices; and (iv) long or short positions in commodity indices or options.

Allocation

Although the percentage of the Portfolio that the Macro Systemic Risk Protection Program will represent will fluctuate over time based on the result of the stress tests discussed above, the Portfolio Advisor estimates that the Macro Systemic Risk Protection Program will never represent more than 35% of the NAV of the Fund at any time.

**Risk Mitigation Techniques**

Risk mitigation is provided through three separate components of the Portfolio Advisor's four investment strategies:

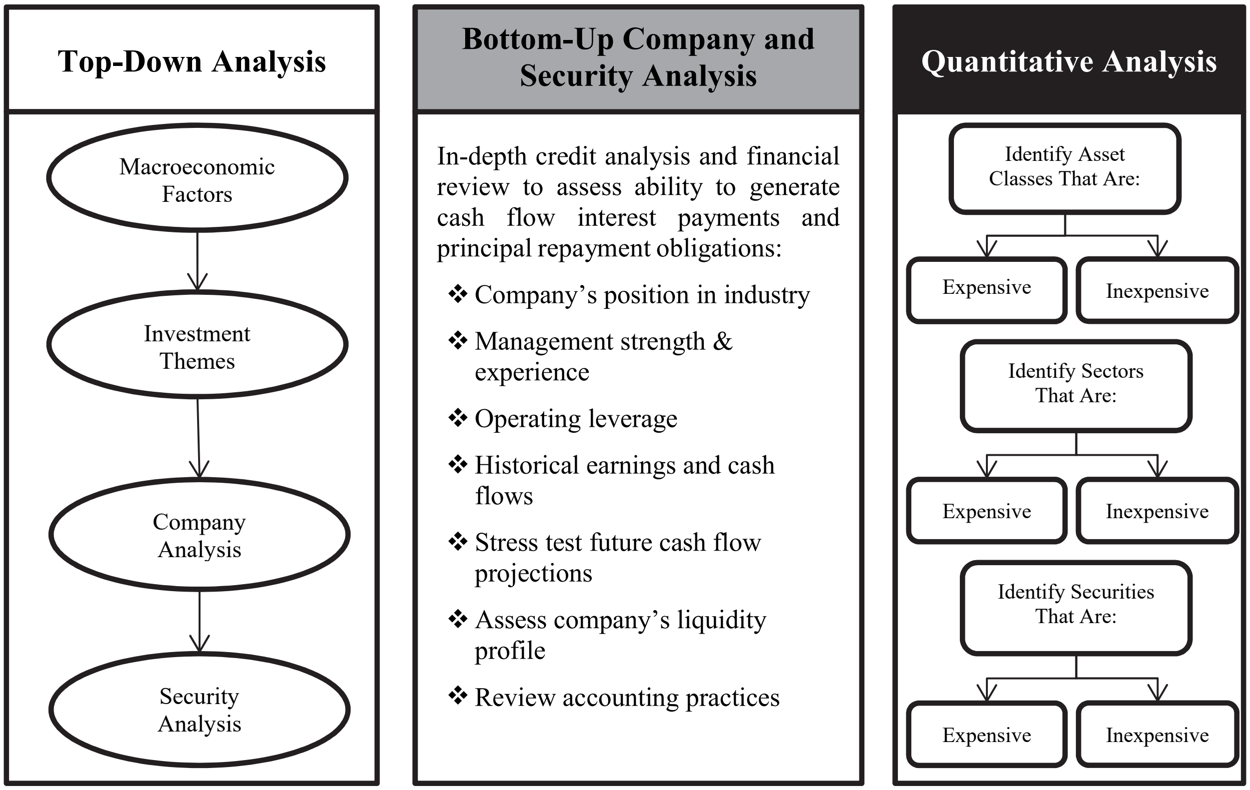
(1) diversification of the Portfolio by company, market capitalization, premium structure, sector, industry, credit rating and, where appropriate, region;

(2) short selling of primarily government bonds in each of the Core Credit Portfolio Strategy, the Relative Value Trading Strategy and the Active Credit Trading Strategy to reduce the interest rate risk inherent in the Portfolio's corporate Investment Grade Debt positions; and

(3) purchasing credit, equity, foreign exchange and commodity protection pursuant to the Macro Systemic Risk Protection Program to reduce Portfolio losses stemming from severe systemic shocks.

**Investment Process**

The Portfolio Advisor employs the following investment processes to manage the Portfolio: (i) top-down analysis (macro-economic environment and sector); (ii) bottom-up analysis (company fundamentals); and (iii) quantitative analysis (asset class and security relative valuation). The outcome of this research will enable the Portfolio Advisor to identify investment opportunities as well as ways of mitigating and avoiding undesirable market risk. The combination of all three investment processes will allow the Portfolio Advisor to reduce the downside risk associated with an investment as much as possible prior to acquisition of such investment.




Top-Down Analysis

In selecting Investment Grade Debt, the Portfolio Advisor performs a fundamental analysis of economic, political and market trends. This analysis identifies sectoral trends that provide a template that shapes the Portfolio through the credit cycle. Next, the Portfolio Advisor attempts to determine the point in, and duration of, the current credit cycle in order to evaluate the relative attractiveness of industries and sectors. Finally, the Portfolio Advisor identifies sectors that will experience positive and negative cash flow trends as the cycle evolves.

Bottom-Up Company and Security Level Analysis

Company fundamentals are reviewed to assess a company's ability to generate cash and meet interest and principal obligations on its debt securities. The Portfolio Advisor focuses on industry position, operating leverage, management strength and experience, historical earnings and future projections, liquidity profile and accounting ratios and practices. The ultimate goal of this process is to identify Investment Grade Debt trading at levels inconsistent with the Portfolio Advisor's analysis of potential return and underlying risk. In selecting Investment Grade Debt for the Portfolio, the Portfolio Advisor takes into consideration factors such as industry, maturity, level of liquidity and security diversification. The Portfolio Advisor seeks to acquire Investment Grade Debt that offers attractive risk/return characteristics and has protection against the debt instruments being called by their issuers for an initial period (generally two to three years) and adequate security.

Quantitative Analysis

The Portfolio Advisor also performs a methodical quantitative analysis to determine which areas of the market are relatively expensive and relatively inexpensive at the time of making any investment decision. This detailed analysis includes a determination of relative pricing inefficiencies for various asset classes, market sectors and individual securities.

**Use of Derivatives**

The Portfolio Advisor may invest in or use derivative instruments including, but not limited to, bond futures, credit default swaps, interest rate swaps, foreign exchange options, equity options and futures, index futures, credit indices, commodity indices and other permitted derivatives, for hedging or investment purposes consistent with its investment objectives and subject to investment restrictions of the Fund. No assurance can be given that the Portfolio will be hedged from any particular risk from time to time. The Portfolio Advisor may employ derivative strategies in the Portfolio to invest indirectly in, or gain exposure to, investments or financial markets.

**Currency Hedging**

Certain of the securities included in the Portfolio may occasionally be denominated in currencies other than the Canadian dollar. The Portfolio Advisor will take into consideration the foreign exchange exposure of the Portfolio and will enter into currency hedging transactions to reduce the effects on the Portfolio of changes in the values of such foreign currencies relative to the Canadian dollar. The Portfolio Advisor intends that no more than 10% of the NAV of the Fund will be exposed to foreign exchange exposure relative to the Canadian dollar once the Fund's holdings and hedging transactions are taken into account.

**Hedging and Short Selling**

The investment strategies of the Fund involve the use of hedging and short selling securities. As part of its hedging strategy, in addition to the use of derivatives described above, the Portfolio Advisor may invest in or use instruments which may include, but are not limited to, non-investment grade debt, equity indices, exchange-traded funds, foreign exchange positions, volatility indices and other exchange-traded futures contracts. The hedging investments and instruments will be used to hedge, among other things, interest rate risk and exposure, inflation, and credit risk. At no time will net short positions exceed 150% of the NAV of the Fund on a daily mark-to-market basis.

The investment strategies employed by the Fund will be implemented by engaging in short selling which involves borrowing securities from a lender and then selling those securities in the open market. If the value of the securities decreases between the time that the Fund borrows the securities and the time it repurchases and returns the securities to the lender, the Fund makes a profit for the difference (less the interest the Fund is required to pay to the lender). The Fund will hold collateral in the form of securities and cash, cash cover or cash equivalents equal to a minimum of 105% of the value of its short positions in government bonds.

The Portfolio Advisor will use financial futures, options, credit default swaps and other hedging instruments to preserve capital when it is deemed appropriate. The Fund's short positions in futures are margined daily and funded out of its margin account which is generally maintained at a level approximately 30% in excess of the required margin balance.

The Fund may deposit assets with and/or provide security in favour of lenders or brokers in accordance with NI 81-102 and industry practice in relation to its obligations arising under its hedging and short sale transactions.

**Leverage**

The Fund may employ various forms of leverage, including through borrowing by way of credit facilities, margin purchases, short selling securities and through derivative instruments. The leverage employed by the Fund is primarily achieved by shorting Government of Canada bonds which is a source of cash and also hedges the interest rate risk associated with the Portfolio's long positions in Investment Grade Debt. While the shorting of government bonds would generally be considered to increase leverage, its use by the Portfolio Advisor in this strategy is intended to eliminate, or at least significantly reduce, the risk associated with interest rate movements. Since interest rate movements have historically been responsible for the majority of price movements in Investment Grade Debt, this hedging strategy will significantly dampen the volatility of the Portfolio.

Typically, the strategy involves reinvesting a portion of the cash generated by shorting Government of Canada bonds into additional Investment Grade Debt securities (which positions would in turn be hedged by corresponding short positions in Government of Canada bonds). The end result is that the Fund typically has leveraged exposure to the credit spreads or credit risk associated with the Investment Grade Debt in the Portfolio, while having significantly reduced or eliminated the interest rate risk associated with such Investment Grade Debt.

The Portfolio Advisor believes the best way to measure leverage and the risk associated with its leverage strategies is the total exposure (the "**Total Exposure**") of the Fund. Total Exposure is calculated as the value of the total long security positions, excluding cash and cash equivalents, plus the absolute value of the total unhedged short positions, excluding any negative cash balances, divided by the NAV of the Fund. For greater certainty, in determining Total Exposure, the Fund's short positions in government bonds will not be included in calculating Total Exposure to the extent that they are hedges for long positions in investment grade corporate bonds.

The Portfolio Advisor considers Total Exposure as the most accurate measure of leverage in the Portfolio since it captures the leveraged and unleveraged positions (both long and short) in the Portfolio that are unhedged as a percentage of the NAV of the Fund. At no time will the Total Exposure of the Portfolio exceed 4:1 of the NAV of the Fund on a daily mark-to-market basis.

The amount of the Portfolio that may be invested in long positions and short positions is subject to certain investment restrictions of the Fund. See "*Investment Strategies – Investment Restrictions of the Fund*".

**Securities Lending, Repurchase and Reverse Repurchase Transactions**

In order to generate additional returns and/or to acquire securities for the purpose of entering into short sale transactions, the Fund may enter into securities lending, repurchase and reverse repurchase transactions. Any securities lending by the Fund must be pursuant to a securities lending agreement to be entered into between the Fund and a securities borrower acceptable to the Fund pursuant to which the Fund will loan the securities comprising the Portfolio to the securities borrower on the terms therein, which terms shall include that: (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensation payments to the Fund equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"); and (iii) the Fund must receive collateral security. In a repurchase transaction the Fund would be selling a security at one price and agreeing to buy it back from the same party at a higher price. In a reverse repurchase transaction the Fund would be buying a security at one price and agreeing to sell it back to the same party at a higher price. Any repurchase or reverse repurchase transactions entered into by the Fund will be pursuant to a master repurchase agreement to be entered into between the Fund and a counterparty pursuant to which the Fund will be buying or selling the subject securities on the terms therein, which terms shall include that the purchaser or the seller will post collateral security to one another on mark-to-market basis. The Portfolio Advisor is responsible for setting and reviewing any securities lending, repurchase and reverse repurchase transactions. If a securities lending agent is appointed for the Fund, such agent will be responsible for the ongoing administration of the securities loans, including the obligation to mark-to-market the collateral on a daily basis.

**Investment Restrictions of the Fund**

In addition to the investment restrictions applicable to the Fund pursuant to NI 81-102, the Fund is subject to the investment restrictions set out in the Declaration of Trust. The Fund's investment restrictions set out in the Declaration of Trust may not be changed without approval by resolution passed by at least 66 $^{2}/_{3}$% of the votes cast by holders of Units voting thereon who attend in person or by proxy and vote at a meeting called for such purpose. See "*Description of the Units of the Fund – Meetings of Unitholders and Matters Requiring Unitholder Approval*". The Fund's investment restrictions set out in the Declaration of Trust provide that the Fund may not:

(a) have total exposure exceeding 400% determined on a daily mark-to-market basis, where total exposure is calculated as the value of the total long security positions, excluding cash and cash equivalents, plus the absolute value of the total unhedged short positions, excluding any negative cash balances, divided by the NAV of the Fund;

(b) have net long exposure exceeding 300% determined on a daily mark-to-market basis, where net long exposure is calculated as the value of the Fund's long security positions, excluding cash and cash equivalents, minus the absolute value of the Fund's short positions, divided by NAV of the Fund;

(c) have net short exposure exceed 150% determined on a daily mark-to-market basis, where the net short exposure is calculated as the absolute value of the Fund's short security positions, excluding negative cash balances, minus the value of the Fund's long positions, excluding cash and cash equivalents;

(d) make borrowings, including pursuant to a loan facility or by purchasing securities on margin, if, immediately following the borrowings, the aggregate amount borrowed would exceed 35% of the NAV of the Fund;

(e) invest more than 10% of its net assets in the securities of any single issuer (as determined at the time of purchase), other than securities issued or guaranteed by the Government of Canada, the Government of the United States of America or a province, state or territory thereof;

(f) invest more than 12.5% of its net assets in non-investment grade debt securities;

(g) invest more than 10% of its net assets in "illiquid assets" as defined in NI 81-102;

(h) with the exception of securities of the Fund's own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager or the Portfolio Advisor or any of their affiliates, any officer, director or shareholder of the Manager or the Portfolio Advisor, any person, trust, firm or corporation managed by the Manager or the Portfolio Advisor or any of their affiliates or any firm or corporation in which any officer, director or shareholder of the Manager or the Portfolio Advisor may have a material interest (which, for these purposes, includes beneficial ownership of more than 10% of the voting securities of such entity) unless, with respect to any purchase or sale of securities, any such transaction is effected through normal market facilities, pursuant to a non-pre-arranged trade, and the purchase price approximates the prevailing market price or is approved by the Fund's independent review committee ("**IRC**");

(i) own securities of an issuer if as a result of such ownership the Manager or the Portfolio Advisor, or parties acting jointly or in concert with them, would, either directly or indirectly, hold or exercise control or direction over securities of such issuer that constitute in the aggregate more than 19.99% of the outstanding securities of that class of securities;

(j) invest in securities of an issuer that:

  (i) have a total fair market value that exceeds 10% of the equity value of such issuer for purposes of the Tax Act; or

  (ii) securities of an issuer that, together with all securities of entities affiliated with the issuer owned by the Fund, have a total fair market value that is greater than 50% of the fair market value of all of the issued and outstanding Units;

(k) acquire more than 10% of the securities of any one particular issue of an issuer;

(l) invest in "Canadian real, immoveable or resource property" as that term is defined in the Tax Act, if, at any time, the fair market value of such properties is greater than 50% of the fair market value of all of the issued and outstanding Units;

(m) purchase the securities of an issuer incorporated or otherwise created under the laws of Canada or a province or territory thereof: (i) representing more than 10% of (A) the votes attached to the outstanding voting securities of that issuer, or (B) the outstanding equity securities of that issuer; or (ii) for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Fund would be required to make a take-over bid that is a “formal bid” for the purposes of applicable securities laws;

(n) purchase the securities of an issuer incorporated or otherwise created under the laws of the United States of America or a state, commonwealth or possession thereof: (i) representing more than 5% of (A) the votes attached to the outstanding voting securities of that issuer; or (B) the outstanding equity securities of that issuer; or (ii) for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Fund would be required to make a take-over bid that is a “formal bid” for the purposes of applicable securities laws;

(o) make or hold any securities in any non-resident trusts, other than “exempt foreign trusts” as defined in subsection 94(1) of the Tax Act;

(p) make or maintain any direct or indirect investment that would result in the Fund being a “tax shelter investment” for the purposes of section 143.2 of the Tax Act;

(q) invest in an offshore investment fund property such that the Fund would be required to include any material amounts in income under section 94.1 of the Tax Act;

(r) make or hold any investments in entities that would be “foreign affiliates” of the Fund for purposes of the Tax Act;

(s) make or hold any investment or undertake any activity that would result in the Fund failing to qualify as a “mutual fund trust” within the meaning of the Tax Act;

(t) make or hold any investments, including any “non-portfolio property”, or conduct any activity that would result in the Fund itself being subject to the tax for SIFT trusts as provided for in section 122 of the Tax Act;

(u) make or hold any investment in property that would be “taxable Canadian property” (if the definition of such term in the Tax Act were read without reference to paragraph (b) thereof) if more than 10% of the Fund’s property consisted of such property; or

(v) enter into any arrangement (including the acquisition of securities for the Portfolio) which would be a dividend rental arrangement for the purposes of the Tax Act.

In the event that the percentage restrictions in paragraphs (a) through (n), inclusive, are exceeded, the Fund will sell Portfolio securities in an orderly manner and use the proceeds therefrom to reduce the outstanding positions.

## INVESTMENT OVERVIEW

The Portfolio composition will vary depending on the stage of the credit cycle and market conditions. The Fund will primarily invest in debt securities that are Investment Grade Debt.

**Investment Grade Debt Market**

Corporate debt is issued by companies to finance operations and refinance existing debt maturities. This debt generally pays interest quarterly or semi-annually and repays principal on the maturity date. Independent credit ratings help investors analyze credit risk and also contribute to market efficiencies by providing credible and independent assessments of credit risk. Corporate debt securities that are rated AAA to BBB- (Standard & Poor’s rating categories) or Aaa to Baa3 (Moody’s Investor Services, Inc. rating categories) are classified as Investment Grade Debt.

| Investment Grade Debt | |
|---|---|
| **Moody's** | **Standard & Poor's** |
| Aaa | AAA |
| Aa1, Aa2, Aa3 | AA+, AA, AA- |
| A1, A2, A3- | A+, A, A- |
| Baa1, Baa2, Baa3 | BBB+, BBB, BBB- |

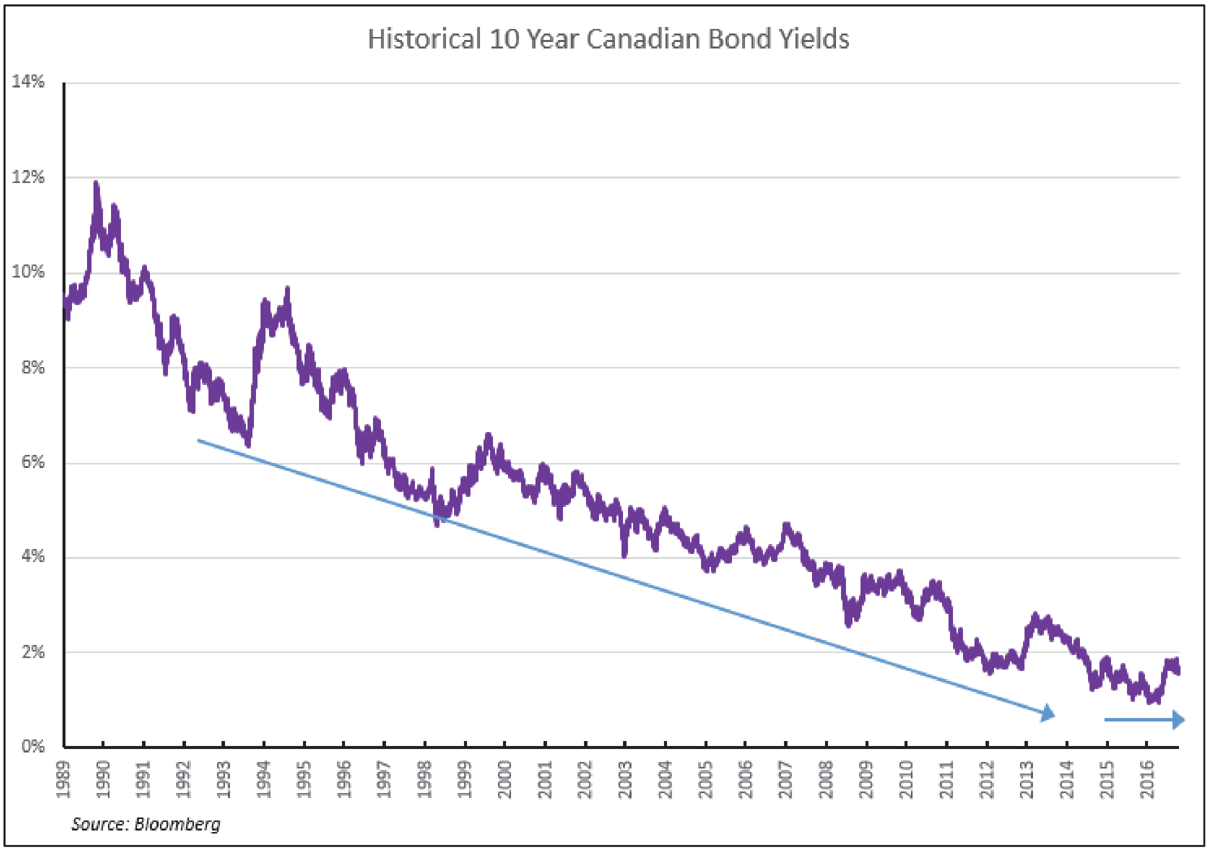
A lower credit rating suggests a greater risk of default. According to Standard & Poor's rating definitions, a company rated BBB- has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the company to meet its financial commitments. Debt rated BB, B, and CCC is regarded as having speculative characteristics. These securities are known as non-investment grade debt or junk bonds. BB indicates the least degree of speculation of debt in the non-investment grade universe and CCC a higher degree. Investment Grade Debt also includes debt not formally rated by an "approved rating organization" as defined in NI 81-102, but bearing yields equivalent to comparable rated securities.

The Investment Grade Debt market has traditionally involved transactions among corporate issuers and institutional and other sophisticated investors. Many of these transactions are completed on an exempt basis without any public distribution or listing of the offered securities. Opportunities for individual Canadian investors seeking direct Investment Grade Debt investments have been limited. Even where such opportunities have been made available, the number of such opportunities has been so few that investors have generally been unable to achieve the benefits of portfolio diversification. The Portfolio Advisor expects that the Fund will participate in both the private and public markets for Investment Grade Debt but the Fund will not invest more than 10% of net assets in "illiquid assets" as defined in NI 81-102 and investments in non-investment grade debt is limited to 12.5% of the total assets of the Portfolio.

The prices at which Investment Grade Debt trades vary over time based on such factors as term to maturity, interest and currency rate fluctuations, the liquidity of the security, underlying changes in the risks associated with the issuer of the securities (such as business changes affecting a corporate issuer), investor demand and general economic trends. The yield of Investment Grade Debt at a specific time is typically calculated on a "yield-to-maturity" basis (the return to be earned on the security if held to maturity, taking into account the discounted value of the future interest and principal payments). The price of Investment Grade Debt varies inversely with yields available in the market, which, in turn, reflect the changes in spreads over Canadian government debt securities.

**Investment Grade Debt Historical Trends**

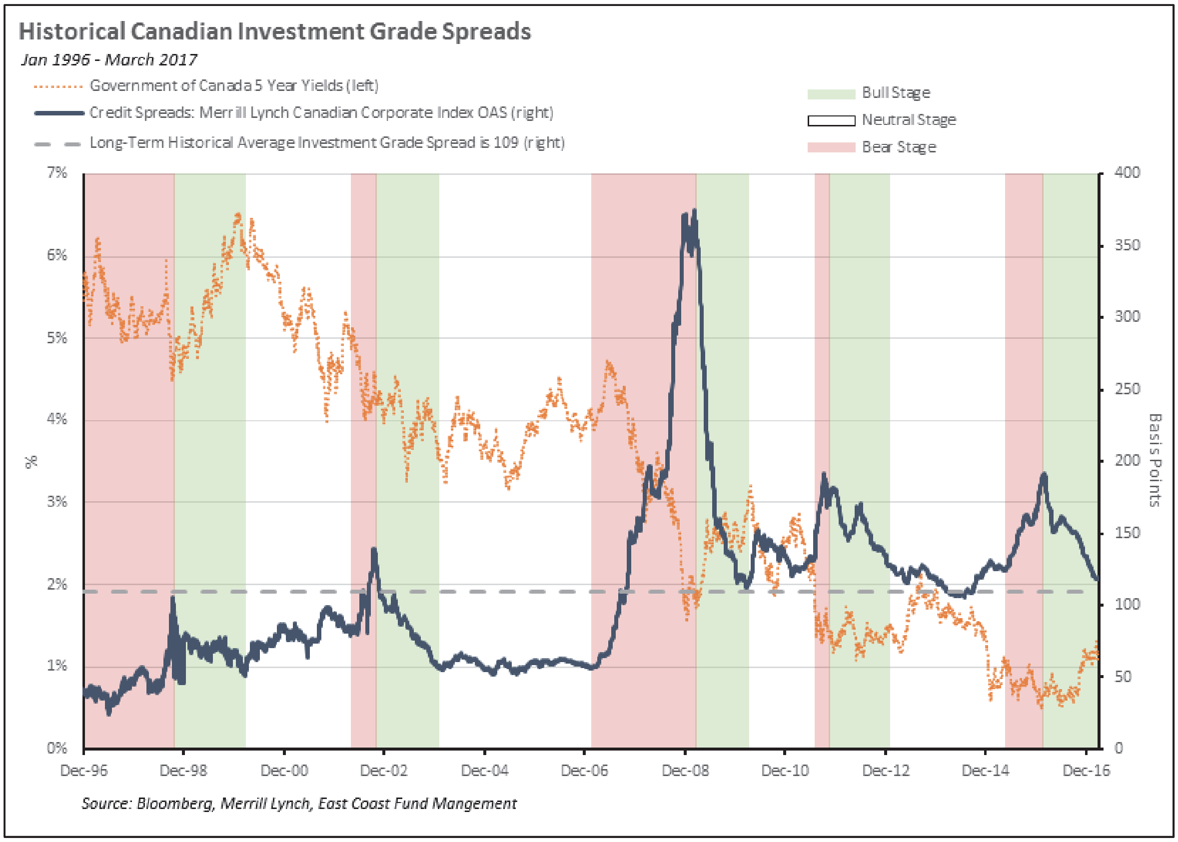
Since 1982, nominal interest rates in Canada paid in respect of government issued and guaranteed debt obligations and Investment Grade Debt have been in secular decline. As depicted in the below chart, the yield on 10-year Government of Canada and provincial bonds is approximately 1.60%, a level never before seen in the Canadian fixed income markets:




Since 2007, government authorities around the globe, including in Canada, have undertaken an enormous "easing" in money supply and the availability of capital in an attempt to stimulate growth. This stimulus has primarily come in the form of central bank zero-interest rate policies and quantitative easing that has dropped interest rates to historical lows. In the view of the Portfolio Advisor, this unprecedented expansion in the money supply will result in nominal interest rates rising in the next decade to more normalized levels. This secular rise in interest rates would expose long-only Investment Grade Debt portfolios to significant capital losses.

The Portfolio Advisor believes that in such an environment it is essential to have a broad understanding of all asset classes and utilize a variety of investment techniques. The core premise of the Portfolio Advisor's investment strategies and techniques is that the credit spreads over equivalent government debt being paid by Canadian corporations to borrow debt are too high relative to their probability of default and their losses in the event of default. The Portfolio Advisor believes that this is particularly true for Investment Grade Debt relative to lower rated non-investment grade debt. These conditions are expected to persist due to structural impediments in the Canadian fixed income markets that reduce the efficiency of the corporate bond market in Canada.

The following chart shows the historical credit spreads since January 1996 of the Merrill Lynch Canadian Corporate Index over the yield on the Canadian 5-year bond. The shaded sections of the chart below represent the different stages of the credit cycle, which are more fully described below.




**The Credit Cycle**

The Portfolio Advisor's investment process and investment decision making is also be influenced by the stage of the credit cycle that the credit market is in at the time of investment and the timing of any shift in the credit cycle. The Portfolio Advisor allocates the Portfolio between its four investment strategies based on its assessment of the credit cycle. The Portfolio Advisor views the credit cycle as consisting of three stages: (i) the 'bull market' for the credit market (the "**Bull Stage**"); (ii) the 'neutral market' for the credit market (the "**Neutral Stage**"); and (iii) the 'bear market' for the credit market (the "**Bear Stage**").

| | **The Bull Stage** | **The Neutral Stage** | **The Bear Stage** |
|---|---|---|---|
| **Timing of Shift** | As the Canadian economy exits recession and begins a recovery and boom period. | The Canadian economy has transitioned out of a recessionary period and into boom period with expansion initially then a slowing of economic growth with an eventual contractionary period. | If the contractionary period persists and the Canadian economy enters a recession. |
| **Impact on Credit Spread** | Credit spreads initially at very high levels then narrowing or reducing throughout the Bull Stage. | Credit spreads and their volatility remain generally low during the Neutral Stage. | Credit spreads widen rapidly to reflect increased default risk as the contractionary period continues. |

Over the course of the credit cycle, the goal of the Portfolio Advisor is to generate returns consistent with the long-term performance of equity indices, but with the volatility and risk characteristics consistent with Investment Grade Debt. The Portfolio Advisor believes that the market is currently in the Neutral Stage of the credit cycle. Typically spread volatility reduces in this stage and the best returns are generated from levered shorter duration credit positions. In the current environment short duration credit spreads are elevated because interest rates are abnormally low, resulting in relatively higher returns compared to traditional fixed income. The Portfolio Advisor believes it is prepared for the credit cycle to enter the Bear Stage for a short period of time, which should allow the Portfolio Advisor to reallocate risk into longer duration positions that it expects to result in attractive returns as the credit cycle shifts back to the Bull Stage.

**Historical Performance**

The following table shows the Fund's annualized compound returns from inception, assuming all the distributions made by the Fund during the years shown were reinvested, as of March 31, 2017. Past performance is not necessarily indicative of future performance.

| | Year to Date | Past Year | Past 2 Years (annualized) | Past 3 Years (annualized) | Past 4 Years (annualized) | Since Inception[(1)] (annualized) |
|---|---|---|---|---|---|---|
| Fund Units[(2)] | 2.92% | 11.00% | 3.62% | 1.49% | 2.10% | 2.48% |
| FTSE TMX Canadian Universe Bond Index | 1.24% | 1.51% | 1.14% | 4.09% | 3.27% | 3.56% |

(1) Inception date was May 18, 2012.
(2) Performance is measured by the NAV of the Units.

## DESCRIPTION OF THE UNITS OF THE FUND

The following description sets forth certain general terms and provisions of the Units. The particular terms and provisions of the Units offered by a Prospectus Supplement, and the extent to which the general terms and provisions described below may apply thereto, will be described in such Prospectus Supplement.

**Description of the Units**

The beneficial interests in the net assets and net income of the Fund are divided into Units. The Fund is authorized to issue an unlimited number of Units. Each Unit entitles the Unitholder to the same rights and obligations as a holder of any other Unit and no Unitholder is entitled to any privilege, priority or preference in relation to any other Unitholder. Each Unit entitles the Unitholder to one vote at all meetings of all Unitholders. Each Unitholder is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net realized capital gains, if any. On the redemption of Units, however, the Fund may, in its sole discretion, designate payable to redeeming Unitholders, as part of the redemption price any capital gains realized by the Fund in the taxation year in which the redemption occurred. On termination or liquidation of the Fund, the Unitholders of record are entitled to receive on a pro rata basis all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. Unitholders will have no voting rights in respect of securities held by the Fund. Units may be redeemed at the option of Unitholders on a Monthly Redemption Date (as defined herein) and on the last business day in May of each year, subject to certain conditions. See "*Description of the Units of the Fund – Redemption Rights – Monthly Redemptions*".

**Monthly Distributions**

The Fund intends to make monthly cash distributions to Unitholders of record on the last business day of each month. Distributions are paid on a business day on or before the 15th business day of the following month. The Fund does not have a fixed monthly distribution amount but the Fund will determine and announce, at least annually, the indicative distribution amount (the "**Indicative Distribution Amount**") for the following twelve months or such lesser period, as applicable. The Indicative Distribution Amount since the inception of the Fund has been $0.05 per Unit per month, with the exception of the first pro rata distribution of $0.068, and the Fund made aggregate cash distributions of $2.918 in respect of the Units during the period from the date of inception of the Fund to March 31, 2017. The Indicative Distribution Amount for the first six months of 2017 is $0.05 per Unit per month.

**Redemption Rights**

Annual Redemptions

Commencing in May, 2018 Units may be surrendered annually for redemption during the period from March 15th until 5:00 p.m. (Toronto time) on the 10th business day in April of each year (the "**Notice Period**") subject to the Fund's right to suspend redemptions in certain circumstances. Units properly surrendered for redemption during the Notice Period will be redeemed on the last business day in May of each year (the "**Annual Redemption Date**") and the redeeming Unitholder will receive a redemption price per Unit equal to 100% of the NAV per Unit as determined on the Annual Redemption Date on or before the 15th business day of the month following the Annual Redemption Date, less any costs and expenses incurred by the Fund in order to fund such redemption. See "*Calculation of Net Asset Value*".

Monthly Redemptions

Units may be surrendered for redemption to the Fund's registrar and transfer agent on the last business day of any month, other than May 2018 or May of any year following 2018 (the "**Monthly Redemption Date**"), by no later than 5:00 p.m. (Toronto time) on the 15th day of such month or the immediately preceding business day in the event that the 15th day is not a business day, subject to the Fund's right to suspend redemptions in certain circumstances. Payment of the proceeds of redemption will be made on or before the last business day of the following month (the "**Redemption Payment Date**"). Unitholders whose Units are surrendered for redemption will be entitled to receive a redemption price per Unit equal to the lesser of: (i) 95% of the Trading Price (as defined below) of the Units; and (ii) the Market Price (as defined below) and less any costs and expenses incurred by the Fund in order to fund such redemption, if any. Any declared and unpaid distributions payable on or before a Monthly Redemption Date in respect of Units tendered for redemption on such Monthly Redemption Date will also be paid on the Redemption Payment Date. For these purposes, "**Trading Price**" means the weighted average trading price on the TSX or such other stock exchange on which the Units may be listed for the ten trading days immediately preceding the relevant Monthly Redemption Date; "**Market Price**" means the closing price of the Units on the TSX or such other stock exchange on which the Units may be listed on the Monthly Redemption Date or, if there was no trade during the relevant period preceding a Monthly Redemption Date, the average of the last bid and the last asking prices of the Units on the TSX or such other stock exchange on which the Units may be listed for each day during the relevant period.

Limitation and Suspension of Redemptions

The Manager may suspend the redemption of Units or payment of redemption proceeds: (i) during any period when normal trading is suspended on stock exchanges or other markets on which securities in the Portfolio are listed and traded, if these securities represent more than 50% by value or underlying market exposure of the NAV of the Fund, without allowance for liabilities, and if these securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or (ii) with the prior permission of the securities regulatory authorities (if required), for a period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Portfolio or which impair the ability of the Manager to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All Unitholders making such requests shall be advised by the Manager of the suspension and that the redemption will be affected at a price determined on the first business day following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist, provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

**Purchase for Cancellation**

The Declaration of Trust provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Unit not exceeding the most recently calculated NAV per Unit of a Unit immediately prior to the date of any such purchase of Units up to a maximum in any twelve month period of 10% of the outstanding public float of Units.

**Amendments**

Amendments to the terms of the Units must be approved by Unitholders of the Fund in accordance with applicable laws and as set forth under "*Description of the Units of the Fund – Meetings of Unitholders and Matters Requiring Unitholder Approval*".

**Non-Resident Unitholders**

At no time may persons who are non-residents of Canada for purposes of the Tax Act and/or partnerships that are not Canadian partnerships within the meaning of the Tax Act (or any combination thereof) (collectively, "**non-residents**") be the beneficial owners of a majority of the Units. The Manager may require declarations as to the jurisdictions in which a beneficial owner of Units is resident and, if a partnership, its status as a Canadian partnership. If the Manager becomes aware, as a result of requiring such declarations as to beneficial ownership or otherwise, that the beneficial owners of 40% of the Units then outstanding are, or may be, non-residents, or that such a situation is imminent, the Manager may make a public announcement thereof. If the Manager determines that more than 40% of the Units are beneficially held by non-residents, or that such a situation is imminent, the Manager may send a notice to such non-resident Unitholders, chosen in inverse order to the order of acquisition or in such manner as the Manager may consider equitable and practicable, requiring them to dispose of their Units or a portion thereof within a specified period of not less than thirty (30) days. If the Unitholders receiving such notice have not disposed of the specified number of Units or provided the Manager with satisfactory evidence that they are not non-residents within such period, the Manager may, on behalf of such Unitholders, dispose of such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such disposition, the affected Unitholders shall cease to be beneficial holders of Units and their rights shall be limited to receiving the net proceeds of disposition of such Units.

Notwithstanding the foregoing, the Manager may determine not to take any of the actions described above if the Manager has been advised by legal counsel that failure to take any of such actions would not adversely impact the status of the Fund as a mutual fund trust for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the Fund as a mutual fund trust for purposes of the Tax Act.

**Meetings of Unitholders and Matters Requiring Unitholder Approval**

<u>Meetings of Unitholders</u>

A meeting of Unitholders may be convened by the Manager by a written requisition specifying the purpose of the meeting, and must be convened by the Manager if requisitioned by Unitholders holding not less than 10% of the then outstanding Units by a written requisition specifying the purpose of the meeting.

Notice of all meetings of Unitholders will be given in accordance with applicable law. The quorum for a meeting of all Unitholders is 5% of the outstanding Units, represented in person or by proxy at a meeting. If no quorum is present at such meeting within 30 minutes of the time called for such meeting, if called on the requisition of a Unitholder, the meeting will be terminated and otherwise the meeting will be adjourned to be held on the day that is 14 days after the so adjourned meeting, at the same time and place; provided that if such day is not a business day, the meeting shall be held on the next business day. At the adjourned meeting, the Unitholders then present in person or represented by proxy will form the necessary quorum.

The Fund does not intend to hold annual meetings of Unitholders. However, the Fund will undertake to the TSX to hold annual meetings of Unitholders if so requested by the TSX.

Matters Requiring Unitholder Approval

Unless otherwise required by law, the following acts require the approval of the Unitholders by resolution passed by the affirmative vote of at least 66 $^{2}/_{3}$% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution (an "**Extraordinary Resolution**"):

(a) the removal of the trustee of the Fund;

(b) any change to the investment objectives or investment restrictions of the Fund, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;

(c) except as described herein, a change in the Manager, other than: (i) a change resulting in an affiliate of the Manager assuming such position; or (ii) a termination of the Management Agreement (as defined herein) in accordance with its terms;

(d) any increase in the basis of calculating management fees or performance fees paid to the Manager;

(e) any material amendments to the Declaration of Trust, other than any material amendment that requires either unanimous Unitholder approval or the consent of the Manager or does not require Unitholder approval as set forth under the heading "*Description of the Units of the Fund – Meeting of Unitholder and Matters Requiring Unitholder Approval – Amendments to the Declaration of Trust*";

(f) the merger or the sale of all or substantially all of the assets of the Fund other than in the ordinary course of its activities and other than in connection with the termination of the Fund or unless such merger, arrangement or similar transaction or sale is permitted to be undertaken without Unitholder approval by NI 81-102, as it may be amended, replaced or superseded from time to time ("**Permitted Merger**");

(g) any amendment, modification or variation in the provisions or rights attaching to the Units;

(h) any change in the frequency of calculating the NAV per Unit to less often than daily;

(i) any termination of the Fund, other than disclosed under "*Description of the Units of the Fund - Termination of the Fund*"; or

(j) the issuance of additional Units, including any offering of rights, warrants or options to existing Unitholders to acquire Units, other than: (i) for net proceeds per Unit equal to or greater than 100% of the most recently calculated NAV per Unit calculated prior to the entering into of the commitment by the subscriber to purchase such Units or prior to the offering, as the case may be; or (ii) by way of Unit distribution.

Each Unit will have one vote at such a meeting. Any change to any of the foregoing matters requiring Unitholder approval shall require the same approval required to approve such matter.

Amendments to the Declaration of Trust

Unless all of the Unitholders consent thereto, no amendment can be made to the Declaration of Trust which would have the effect of reducing the interests in the Fund of the Unitholders, increasing the liability of any Unitholder, or changing the right of any Unitholder to vote at any meeting of the Fund. No amendment may be made to the

Declaration of Trust which would have the effect of reducing the fees payable or expenses reimbursable to the Manager or terminating the Manager unless the Manager, in its sole discretion, consents.

The trustee of the Fund at the request of the Manager may, without the approval of or notice to Unitholders, amend the Declaration of Trust for the following limited purposes:

(a) to remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions in the Fund's prospectus in respect of its initial public offering or any provisions of any law or regulation applicable to or affecting the Fund;

(b) to make any change or correction in the Declaration of Trust which is of a typographical nature or is required to cure or correct any ambiguity or defect or inconsistent provision, clerical omission, mistake or manifest error contained therein;

(c) to bring the Declaration of Trust into conformity with: (i) applicable laws, rules and policies of Canadian securities regulators; or (ii) current practice within the securities or investment fund industries, provided that any amendment contemplated by (ii) does not adversely affect the pecuniary value of the interests of the Unitholders;

(d) to maintain the status of the Fund as a "unit trust" and "mutual fund trust" for the purposes of the Tax Act or to respond to amendments (including proposed amendments) to such Tax Act or the interpretation thereof;

(e) to terminate the Fund without Unitholder approval as set forth under the heading "*Description of the Units of the Fund - Termination of the Fund*";

(f) to create one or more new class or classes of securities of the Fund having rights or privileges inferior to or equal to the outstanding securities of any class and make consequential amendments to the Declaration of Trust related thereto;

(g) to change the name of the Fund;

(h) to amend or change the Management Agreement which is incorporated into the Declaration of Trust while Arrow is both the trustee and manager of the Fund provided such amendment or change does not require an Extraordinary Resolution; or

(i) to provide added protection or benefit to Unitholders or to the Fund.

Except for changes to the Declaration of Trust that require the approval of Unitholders by an Extraordinary Resolution or changes described above that require neither approval nor prior notice to Unitholders, the Declaration of Trust may only be amended by resolution passed by an affirmative vote of at least a majority of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of considering such resolution.

**Termination of the Fund**

The Fund was initially created by a declaration of trust dated April 26, 2012. The initial term of the Fund was scheduled to end on May 18, 2017. At the Special Meeting, the Unitholders approved the extension of the scheduled termination date of the Fund until May 31, 2022 (the "**Fund Termination Date**"). The Units will be redeemed by the Fund for a cash amount equal to 100% of NAV per Unit on the Fund Termination Date. Prior to the Fund Termination Date, the Manager may present a proposal to extend the term of the Fund for a further five year period, subject to the approval of Unitholders at a meeting called for such purpose, provided that all Unitholders will be given a right to cause their Units to be redeemed on the Fund Termination Date, regardless of whether they voted in favour of the term extension.

The Declaration of Trust also provides that the Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in its opinion, it would be in the best interests of the Unitholders to do so. The Manager will provide at least 30 days prior notice of such termination to Unitholders by way of press release. Upon such a termination, the Manager will liquidate the Portfolio and distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund after all liabilities of the Fund have been satisfied or appropriately provided for, and which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to any termination date, such unliquidated assets in specie rather than in cash, subject to compliance with any securities or other laws applicable to such distributions. Following such distribution, the Fund will be terminated.

The Declaration of Trust provides that prior to the termination of the Fund, the Manager will dispose of all of the Fund's assets and will satisfy or make appropriate provision for all liabilities of the Fund. The Declaration of Trust provides that the Manager may, in its discretion and upon not less than 30 days prior written notice to the Unitholders, postpone any termination date by a period of up to 180 days if the Manager determines that it will be unable to convert all of its assets to cash prior to any termination date and the Manager determines that it would be in the best interests of the Unitholders to do so.

## USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement, the net proceeds from the sale of Units will be used to fund the purchase of securities for the Portfolio in accordance with the investment objectives, investment strategies and investment restrictions of the Fund.

## PLAN OF DISTRIBUTION

The Fund may sell Units to or through underwriters, dealers or agents and also may sell Units directly to purchasers or through agents.

The distribution of Units may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at prices to be negotiated with purchasers.

In connection with the sale of Units, underwriters or agents may receive compensation from the Fund (a portion of which may be paid by the Manager, in its sole discretion) or from purchasers of Units for whom they may act as agents in the form of concessions or commissions. Underwriters, dealers and agents that participate in the distribution of Units may be deemed to be underwriters and any commissions received by them from the Fund and any profit on the resale of Units by them may be deemed to be underwriting commissions. Any such person that may be deemed to be an underwriter with respect to Units will be identified in the Prospectus Supplement relating to such Units.

The Prospectus Supplement relating to the Units offered by the Fund will identify each person who may be deemed to be an underwriter with respect to such Units and will set forth the terms of the offering of such Units, including, to the extent applicable, the offering price, the proceeds to the Fund, the underwriting commissions and any other fees, discounts or concessions to be allowed or reallowed to dealers. The lead underwriter or lead agent or underwriters or agents with respect to the Units sold to or through underwriters will be named in the related Prospectus Supplement. The underwriters or agents may over-allot or effect transactions which stabilize or maintain the market price of the Units offered at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Under agreements which may be entered into by the Fund, underwriters, dealers and agents who participate in the distribution of Units may be entitled to indemnification by the Fund against certain liabilities, including liabilities under Canadian provincial securities legislation, or to contribution with respect to payments which those underwriters, dealers or agents may be required to make in respect thereof. Those underwriters, dealers and agents may be customers of, engage in transactions with or perform services for the Fund or its subsidiaries in the ordinary course of business.

The Units will not be registered under the *United States Securities Act of 1933* or any state securities laws and, subject to certain exemptions, may not be offered or sold within the United States or to U.S. persons.

## INCOME TAX CONSIDERATIONS

The following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable to the acquisition, holding and disposition of Units by a Unitholder, and to the taxation of the Fund. This summary is applicable to a Unitholder who is an individual (other than a trust) and who, for the purposes of the Tax Act, is resident in Canada, deals at arm's length with, and is not affiliated with, the Fund, and holds Units as capital property. Generally, Units will be considered to be capital property to a Unitholder provided the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have them treated as capital property by making an election in accordance with the Tax Act.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, counsel's understanding of the current published administrative policies of the Canada Revenue Agency ("**CRA**") and all specific proposals to amend the Tax Act and regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (such proposals being referred to as the "**Tax Proposals**"). This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial action; nor does it take into account other federal or any provincial, territorial or foreign income tax legislation or considerations. There can be no assurance that the Tax Proposals will be enacted in the form publicly announced or at all.

**This summary is not exhaustive of all possible Canadian federal tax considerations applicable to an investment in Units and does not describe the income tax considerations relating to the deductibility of interest or money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on an investor's particular circumstances, including the province or territory in which the investor resides or carries on business. This summary is of a general nature only and is not intended to be legal or tax advice to any investor. Investors should consult their own tax advisors for advice with respect to the income tax consequences of an investment in Units, based on their particular circumstances.**

### Status of the Fund

This summary is based on the assumptions that the Fund will qualify, at all times, as a "unit trust" and a "mutual fund trust" within the meaning of the Tax Act. To qualify as a mutual fund trust, the Fund must, in general terms: (i) comply on a continuous basis with certain minimum requirements respecting the ownership and dispersal of Units; (ii) be a Canadian resident "unit trust" for purposes of the Tax Act; and (iii) limit its activities to the investing of its funds in property (other than certain real property or interests in certain real property).

If the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially and adversely different.

This summary is also based on the assumption that the Fund will at no time be subject to the tax for "SIFT trusts" for the purposes of the Tax Act. Provided that the Fund complies with the investment restrictions, the Fund should not hold any investment that would result in the Fund being subject to the special tax for "SIFT trusts".

**Taxation of the Fund**

The Fund will be subject to tax under Part I of the Tax Act in each taxation year on its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount payable to Unitholders in the year. The Fund intends to deduct, in computing its income in each taxation year, the full amount available for deduction in each year. Provided the Fund makes distributions in each year of 100% of its income, including any net realized capital gains, it will generally not be liable in such year for income tax under Part I of the Tax Act.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized capital gains by an amount determined under the Tax Act based on the redemptions of Units during the year (a "**capital gains refund**"). The capital gains refund in a particular taxation year may not completely offset the tax liability of the Fund for such taxation year.

In determining the income of the Fund, gains or losses realized upon the disposition or deemed disposition of Portfolio securities of the Fund will constitute capital gains or capital losses of the Fund in the year realized. The Fund has elected in accordance with the Tax Act to have each of its "Canadian securities" (as defined in subsection 39(6) of the Tax Act) treated as capital property. Such an election ensures that gains or losses realized by the Fund on dispositions of Canadian securities will be taxed as capital gains or capital losses. The Fund will take the position that the gains or losses in respect of the disposition of Portfolio securities that are not Canadian securities will be treated as capital gains or capital losses, as the case may be.

One-half of the amount of any capital gain (a "**taxable capital gain**") realized by the Fund in a taxation year must be included in computing the Fund's income for the year, and one-half of the amount of any capital loss (an "**allowable capital loss**") realized by the Fund in a taxation year may be deducted against any taxable capital gains realized by the Fund in the year. Any excess of allowable capital losses over taxable capital gains for a taxation year may be deducted against net taxable capital gains realized by the Fund in any of the three preceding taxation years or in any subsequent taxation year to the extent and under the circumstances described in the Tax Act.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income. Any losses incurred by the Fund may not be allocated to Unitholders but may generally be carried forward and back and deducted in computing the taxable income of the Fund in accordance with the detailed rules and limitations in the Tax Act. In limited cases, capital losses realized by the Fund may not be available for use by the Fund. It is not expected that these tax provisions will apply to the Fund.

**Taxation of Unitholders**

A Unitholder generally will be required to include in computing income for a taxation year its share of the amount of the Fund's net income for the taxation year, including the taxable portion of the Fund's net realized capital gains, paid or payable to the Unitholder in the taxation year (whether received in cash or additional Units). The non-taxable portion of the net realized capital gains of the Fund paid or payable to a Unitholder in a taxation year will not be included in computing the Unitholder's income for the year and, provided appropriate designations are made by the Fund, will not reduce the adjusted cost base of the Unitholder's Units. Any amount in excess of such Unitholder's share of the net income and the net realized capital gains of the Fund for a taxation year that is paid or becomes payable to the Unitholder in such year generally will not be included in the Unitholder's income for the year but will reduce the adjusted cost base of the Unitholder's Units. To the extent that the adjusted cost base of a Unit would otherwise be a negative amount, the negative amount will be deemed to be a capital gain and the adjusted cost base of the Unit to the Unitholder will be increased by the amount of such deemed capital gain.

Provided that appropriate designations are made by the Fund, such portion of the net realized taxable capital gains of the Fund, and the taxable dividends received or deemed to be received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Unitholder, will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the gross-up and dividend tax credit rules will apply, including an enhanced gross-up and dividend tax credit in respect of "eligible dividends" paid by taxable Canadian corporations.

Any loss of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as a loss of, a Unitholder.

On the disposition or deemed disposition of Units (whether on a sale, redemption or otherwise), the Unitholder will realize a capital gain (or capital loss) to the extent that the Unitholder's proceeds of disposition (excluding any amount payable by the Fund which represents an amount that is otherwise required to be included in the Unitholder's income as described herein) exceed (or are less than) the aggregate of the adjusted cost base of the Units and any reasonable costs of disposition.

For the purpose of determining the adjusted cost base of Units to a Unitholder, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the other Units owned by the Unitholder as capital property immediately before that time. The costs of Units acquired as a distribution of income or capital gains will generally be equal to the amount of the distribution. A consolidation of Units following a distribution paid in the form of additional Units will not be regarded as a disposition of Units.

Any taxable capital gain realized by a Unitholder or designated in respect of a Unitholder in a taxation year will be included in the Unitholder's income for the year and any allowable capital loss realized by a Unitholder in a taxation year must be deducted from taxable capital gains of the Unitholder for that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized by the Unitholder in accordance with the provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Unitholder that is designated as net realized taxable capital gains as well as taxable capital gains realized by the Unitholder on the disposition of Units may increase the Unitholder's liability for alternative minimum tax.

**Tax Matters and Registered Plans**

The Fund is a "unit trust" and a "mutual fund trust" for the purposes of the Tax Act. Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or the Units are listed on a designated stock exchange (which currently includes the TSX), the Units will be qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("**RRSP**"), a registered retirement income fund ("**RRIF**"), a deferred profit sharing plan, a registered disability savings plan, a registered education savings plan and a tax-free savings account ("**TFSA**") (each, a "**Registered Plan**").

Notwithstanding that Units of the Fund are qualified investments for a RRSP, RRIF or TFSA, a penalty tax will apply if the Units held in a RRSP, RRIF or TFSA are a "prohibited investment" under the Tax Act. The Units will generally not be a "prohibited investment" unless the annuitant of the RRSP or RRIF or the holder of the TFSA, as applicable, (i) does not deal at arm's length with the Fund (for the purposes of the Tax Act), or (ii) has a "significant interest" (for the purposes of the Tax Act) in the Fund. Generally, an annuitant or holder will have a significant interest in the Fund if the annuitant or holder and/or persons not dealing at arm's length with the annuitant or holder own, directly or indirectly, 10% or more of the fair market value of the Units. In addition, the Units will generally not be a "prohibited investment" if the units are "excluded property" as defined in the Tax Act for trusts governed by a TFSA, RRSP or RRIF. Pursuant to Tax Proposals released on March 22, 2017, the rules in respect of "prohibited investments" are proposed to apply to (i) registered disability savings plans and the holders thereof and (ii) registered education savings plans and the subscribers thereof with respect to investments acquired (or deemed to be acquired) after March 22, 2017. **Prospective unitholders who intend to hold Units in a Registered Plan should consult their own tax advisors regarding their particular circumstances.**

**Taxation Implications of the Fund's Distribution Policy**

The NAV of a Unit purchased may reflect income and/or capital gains that have been earned but not yet distributed. The purchase price of Units acquired prior to a distribution of the Fund, including prior to a year-end distribution, may result in the Unitholder being taxable on income and/or capital gains that have been included in the purchase price of Units acquired.

# ORGANIZATION AND MANAGEMENT DETAILS OF THE FUND

## The Trustee and Manager of the Fund

The Fund has retained Arrow to perform the management functions of the Fund. Arrow is an employee-owned company, founded in 1999. Arrow's expertise in active portfolio management and manager selection is evident in its strong, diverse platform, which provides clients with access to a global selection of actively managed investment funds. Arrow is committed to continuously providing investors with access to a wide range of investment solutions. With over 15 years of service, Arrow has been well respected as a Canadian alternative investment company.

Pursuant to the Declaration of Trust and the amended and restated management agreement dated April 17, 2017 (the "**Management Agreement**"), which is incorporated into the Declaration of Trust while Arrow is both trustee and manager of the Fund, the Manager has been appointed as the sole and exclusive manager of the affairs of the Fund. In such capacity, the Manager is responsible for the day-to-day activities of the Fund from time to time. The services to be provided by the Manager under the terms of the agreement include, without limitation: (i) appointing, supervising and removing service providers for the Fund as the Manager sees fit; (ii) carrying out all capital markets responsibilities, such as securities offerings; (iii) preparing or causing to be prepared the requisite continuous disclosure documents of the Fund; (iv) maintaining proper books, accounts and records of the Fund; (v) providing employees having the requisite experience and skill to perform the obligations of the Manager under the Management Agreement; and (vi) doing all such other acts or things and entering into agreements or documents on behalf of the Fund to seek to achieve the investment objectives of the Fund. In carrying out its obligations under the Management Agreement, the Manager will be required to exercise its powers and discharge its duties diligently, honestly and in good faith and in the best interests of the Fund, including without limitation exercising the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances.

## The Portfolio Advisor

East Coast acts as the Portfolio Advisor to the Fund. As Portfolio Advisor, East Coast will be responsible for all portfolio advisory and investment management services that are provided to the Fund in connection with the Portfolio pursuant to a portfolio advisory agreement between the Manager and the Portfolio Advisor dated April 17, 2017 (the "**Portfolio Advisory Agreement**"). The Portfolio Advisor was incorporated under *Business Corporations Act* (Ontario) on June 22, 2009. The Portfolio Advisor's head office is located at 1920 Yonge Street, Suite 601, Toronto, Ontario M4S 3E2.

Founded in 2009, East Coast is 100% employee owned. East Coast and its experienced team of investment professionals led by Mike MacBain specialize in fixed income and, particularly, in Investment Grade Debt strategies. Mr. MacBain and the Portfolio Advisor's investment team combined have more than 40 years of investment experience that spans all areas of fixed income investing, including analysis and management of Investment Grade Debt. Mr. MacBain personally has over 29 years of experience working with the sell-side participants in the Investment Grade Debt industry in Canada and has developed significant relationships with the management teams of many Canadian issuers of Investment Grade Debt, which is invaluable to both parties when trying to facilitate debt financings in the market.

A description of the experience and background of each of the individuals at the Portfolio Advisor that have primary responsibility for the management of the Portfolio is set out below.

**Mike MacBain** has over 30 years of experience in the financial services industry in various trading and senior management roles for leading investment dealers. Most recently he was Managing Director, Head of Global Debt Markets, RBC Capital Markets from 2008 to 2009, where his primary responsibilities included origination, research, underwriting, sales and trading for derivative products including equity, interest rate and credit. In addition, he was also responsible for the fixed income, money market, foreign exchange and alternative asset global product groups. Prior to RBC Capital Markets, he spent 12 years at TD Securities holding senior management roles focused on derivatives, fixed income, money markets and foreign exchange globally. He was the firm's President from 2002 to 2006. Mr. MacBain has completed the Executive Management Program at Stanford University and received his Bachelor of Arts, Honours Economics and Finance, from McGill University. He was also the recipient of Canada's Top 40 Under 40 award in 2004.

**John MacBain** has over 21 years of experience in the financial services industry in various trading and management roles. Most recently he was Vice President and Director, Interest Rate and Derivative Trading, TD Securities from 2001 to 2007 where he was in charge of North American interest rate option trading. While at TD Securities he also traded government bonds and interest rate swaps. Prior to joining TD Securities in 1996 he spent three-and-a-half years at a derivative brokerage firm. John MacBain received a Bachelor of Arts, Economics, from Mount Allison University.

**Conflict of Interest**

The officers and directors of the Manager may be directors, officers, shareholders or unitholders of one or more issuers in which the Fund may acquire securities. The Manager and its respective affiliates or associates may be managers or portfolio advisors of one or more issuers in which the Fund may acquire securities and may be managers or portfolio advisors of funds that invest in the same securities as the Fund. The services of the Manager are not exclusive to the Fund. The Manager may in the future act as the manager or investment advisor to other funds and companies and may in the future act as the manager or investment advisor to other funds which invest in securities and which are considered competitors of the Fund.

The Declaration of Trust acknowledges that Arrow, as trustee, may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to Arrow than those that would be obtained from parties that are at arm's length for comparable services.

Whenever Arrow or the Portfolio Advisor proposes to make an investment, the investment opportunity will be allocated, on an equitable basis between the Fund and any other fund for which the proposed investment would be within such fund's investment objectives, as required by the Management Agreement and the Portfolio Advisory Agreement.

Where Arrow or their affiliates otherwise perceives, in the course of its business, that it is or may be in a material conflict of interest position, the matter will be referred to the IRC.

The IRC will consider all matters referred to it and provide its recommendations to Arrow as soon as possible. See "*Organization and Management Details of the Fund – Independent Review Committee*".

**Independent Review Committee**

The Manager has established an IRC for all closed-end funds and other investment funds that may be managed by the Manager or any of its affiliates, which includes the Fund, in accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* ("**NI 81-107**"). The IRC is currently composed of three members: John Anderson, Ross MacKinnon and Ronald Riley. Each member will be independent of Arrow, the Portfolio Advisor and their respective affiliates within the meaning of NI 81-107.

Arrow must refer its proposed course of action in respect of any such conflict of interest matters to the IRC for its review. Certain matters require the IRC's prior approval, but in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, Arrow's proposed action provides a fair and reasonable result for the Fund. For recurring conflict of interest matters, the IRC can provide Arrow with standing instructions.

**The Custodian**

CIBC Mellon Trust Company (the "**Custodian**") has been appointed as the custodian of the assets of the Fund pursuant to a custodian agreement between the Custodian and the Fund dated June 27, 2014, as amended (the "**Custodian Agreement**"). The Custodian is, among other things, in the business of providing professional custodial services. The head office of the Custodian is located in Toronto, Ontario. The Custodian may employ sub-custodians as considered appropriate in the circumstances. Pursuant to the Custodian Agreement the Custodian provides safekeeping and custodian services in respect of the assets of the Fund, other than such assets of the Fund which may be deposited with counterparties as collateral security for derivative transactions with such counterparties or deposited with dealers as margin for certain transactions, in each case as permitted by NI 81-102.

**Auditor**

The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Professional Accountants, at PwC Tower, 18 York Street – Suite 2600, Toronto, Ontario M5J 0B2.

**Transfer Agent and Registrar**

Pursuant to a transfer agent, registrar and distribution disbursing agent agreement, executed between the Fund and TSX Trust Company (the "**Transfer Agent**"), the Transfer Agent has been appointed the registrar and transfer agent for the Units at its principal office located in Toronto, Ontario.

**Valuation Agent**

The Manager has appointed, and may replace from time to time, a valuation agent (the "**Valuation Agent**") for the Fund. The Valuation Agent is responsible for providing administration services to the Fund, including fund valuation and financial reporting services. The Valuation Agent is responsible for providing valuation services to the Fund and will calculate the NAV of the Fund and the NAV per Unit pursuant to the terms of a separate fund administration agreement. See "*Calculation of Net Asset Value*".

**Promoter**

The Manager may be considered a promoter of the Fund by reason of its initiative in forming and establishing the Fund and taking the steps necessary for the public distribution of the Units. The Manager will not receive any benefits, directly or indirectly, from the issuance of Units offered under any Prospectus Supplement other than amounts paid to the Manager as described under "*Fees and Expenses*".

**Brokerage Arrangements**

Affiliates of Canadian financial institutions and other Canadian and U.S. agents, as may be replaced or added to (collectively, the "**Shorting Agents**"), have been appointed to act as the Fund's agents to facilitate short selling of securities pursuant to agreements between the Fund and each of the Shorting Agents.

The primary consideration in all Portfolio transactions will be prompt execution of orders in an efficient manner at the most favourable price. In selecting and monitoring dealers, the Manager and the Portfolio Advisor consider the dealer's reliability, the quality of its execution services on a continuing basis and its financial condition. When more than one dealer is believed to meet these criteria, preference may be given to dealers who provide research or statistical material or other services to the Fund, the Manager, the Portfolio Advisor or their respective affiliates. This allows the Manager and the Portfolio Advisor to supplement their own investment research activities and obtain the views and information of others prior to making investment decisions.

## FEES AND EXPENSES

**Management Fee**

The Manager receives from the Fund a management fee (the "**Management Fee**") equal to 1.25% per annum of the NAV of the Fund, calculated daily and paid monthly in arrears, plus any applicable taxes. The Portfolio Advisor is remunerated by the Manager out of the Management Fee. The Manager manages the day-to-day business and operations of the Fund and provides all general management and administrative services.

**Performance Fee**

The Manager is also entitled to receive, for each fiscal year of the Fund, a performance fee (the "**Performance Fee**"), if and only if: (i) the percentage appreciation in the NAV per Unit during such fiscal year (including any distributions paid on the Units) (the "**Fund Performance**") exceeds 4.00% (the "**Hurdle Rate**"); and (ii) the Fund Performance for the fiscal year remains greater than the Hurdle Rate after the payment of the Performance Fee. The Performance Fee shall be calculated daily, accrue monthly and be paid annually, if earned. The Portfolio Advisor will be remunerated by the Manager out of the Performance Fee. For any partial fiscal year, including with respect to Interim Performance Fees (as set out and defined below) the Hurdle Rate will be pro-rated.

The amount of the Performance Fee, if any, shall be determined as of December 31 of each year (the "**Determination Date**"), except in the case of Interim Performance Fees. The Performance Fee for a given fiscal year will be, for each Unit then outstanding, an amount equal to 10% of the amount by which the sum of:

(a) the NAV per Unit (calculated without taking into account the Performance Fee); and
(b) the distributions paid on such Unit during the fiscal year,

exceeds the greater of:

(a) the NAV per Unit on the Determination Date for the immediately preceding fiscal year (after payment of such Performance Fee);
(b) the NAV per Unit immediately following the Fund's initial public offering (adjusted for any distributions paid on the Unit from the date of such NAV to the end of the prior fiscal year); and
(c) the NAV per Unit on the Determination Date in the fiscal year in which a Performance Fee was last paid after payment of such Performance Fee (adjusted for any distributions paid on the Unit from the date of such NAV to the end of the prior fiscal year).

Where Units of the Fund are redeemed on a particular Monthly Redemption Date (as defined in "*Description of the Units of the Fund – Redemption Rights – Monthly Redemptions*") or Annual Redemption Date (as defined in "*Description of the Units of the Fund – Redemption Rights – Annual Redemptions*") during a fiscal year of the Fund (other than on the last business day of a fiscal year), the Fund shall pay the Manager, if earned, a Performance Fee in respect of any concurrently redeemed Units determined as though the Monthly Redemption Date or Annual Redemption Date was the Determination Date (the "**Interim Performance Fee**"). The Interim Performance Fees shall be payable to the Manager on the applicable redemption date and will be subtracted from the redemption proceeds.

**Operating Expenses**

The Fund will pay for all ordinary expenses it incurs in connection with its operation and management. In addition to the fees and expenses referenced elsewhere in this short form base shelf prospectus, it is expected that these expenses will include, without limitation: (a) financial reporting costs and mailing and printing expenses for periodic reports to Unitholders and other Unitholder communications including marketing and advertising expenses; (b) any taxes payable by the Fund; (c) costs and fees payable to the Manager and other third party service providers including legal, accounting, audit, transfer agency, fund administration and custody; (d) ongoing regulatory filing fees, maintenance of listing fees or other stock exchange requirement fees, license fees and other fees; (e) any expenses incurred in connection with any legal proceedings in which the Manager participates on behalf of the Fund or any other acts of the Manager or any other agent of the Fund in connection with the maintenance or protection of the property of the Fund; (f) any fees payable to, and expenses incurred by an IRC; (g) any additional fees payable to the Manager for performance of extraordinary services on behalf of the Fund; and (h) consulting fees and expenses associated with the preparation of tax filings. The aggregate annual amount of the general operating and administrative fees and expenses is approximately $175,000 per annum. The Fund will also be responsible for its transactional costs and any extraordinary expenses that may be incurred from time to time, as applicable.

**Additional Services**

Any arrangements for additional services between the Fund and the Manager, or any affiliate thereof, that have not been described in this short form base shelf prospectus will be on terms that are no less favourable to the Fund than those available from arm's length persons (within the meaning of the Tax Act) for comparable services and the Fund will pay all expenses associated with such additional services.

# RISK FACTORS

There are certain risks inherent in an investment in the Units, including the following factors, which investors should carefully consider before investing. Some of the following factors are interrelated and, consequently, investors should treat such risk factors as a whole. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this short form base shelf prospectus. These risks and uncertainties are not the only ones that could affect the Fund or the Portfolio. Additional risks and uncertainties not currently known to the Manager or Portfolio Advisor, or that they currently deem immaterial, may also impair the returns, the financial condition and the results of operations of the of the Fund. If any such risks actually occur, the returns, the NAV, the financial condition and the results of operations of the Fund could be materially adversely affected and each of the financial performance of the Fund and the ability of the Fund to make cash distributions or satisfy requests for redemptions of Units could be materially adversely affected.

**Risks Associated with an Investment in the Fund**

Speculative Investment

An investment in the Fund may be deemed speculative and is not intended as a complete investment program. A purchase of Units should be considered only by persons who can bear the risk of loss associated with an investment in the Fund. Investors should review closely the investment objectives, strategies and restrictions to be utilized by the Fund as outlined herein to familiarize themselves with the risks associated with an investment in the Fund.

Fluctuation in Value of the Portfolio Securities

The value of the Units will vary according to the value of the securities included in the Portfolio. The value of the securities included in the Portfolio will be influenced by factors that are not within the control of the Portfolio Advisor, including the financial performance of the respective issuers, operational risks relating to the specific business activities of the respective issuers, quality of assets owned by the respective issuers, commodity prices, risks associated with issuers operating outside of Canada, exchange rates, interest rates, environmental risks, political risks, issues relating to government regulation, credit markets and other financial market conditions. As a result of its exposure to the Portfolio, the Fund will also be subject to the risks inherent in investments in debt securities, including the risk that the financial condition of the issuers in which the Fund invests may become impaired or that the general condition of the stock markets may deteriorate. Debt securities are susceptible to general stock market fluctuations and to volatile increases and decreases in value as market confidence in, and perceptions of, the issuers change.

No Assurance in Achieving Investment Objectives or Making Distributions

There is no assurance that the Fund will be able to achieve its investment objectives. Furthermore, there is no assurance that the Fund will be able to pay distributions in the short or long term, nor is there any assurance that the NAV of the Fund will appreciate or be preserved.

The funds available for distribution to Unitholders will vary according to, among other things, dividends, distributions and other amounts paid on all of the securities comprising the investments of the Portfolio, the value of the securities comprising the investments of the Portfolio and the net gains realized on the investments of the Portfolio. To the extent necessary, the Fund may return capital to Unitholders to fund the monthly distributions (in which case the NAV per Unit would be reduced).

Redemptions

Redemptions are permitted only on a Monthly Redemption Date or Annual Redemption Date. There are circumstances in which the Fund may suspend redemptions. See "*Description of the Units of the Fund – Redemption Rights – Limitation and Suspension of Redemptions*". Accordingly, Units may not be an appropriate investment for investors seeking liquidity. Substantial redemptions of Units could require the Fund to liquidate positions more rapidly than otherwise desirable to raise the necessary cash to fund redemptions and achieve a market position appropriately reflecting a smaller asset base. Such factors could adversely affect the value of the Units redeemed and of the Units that remain outstanding.

Illiquid Securities

There is no assurance that an adequate market will exist for the securities included in the Portfolio and it cannot be predicted whether the securities included in the Portfolio will trade at a discount to, a premium to, or at their respective par or net asset values. There can be no assurance that the Fund will be able to dispose of its investments in order to honour requests to redeem Units.

Performance Fees

The estimated Performance Fee, if any, payable to the Manager will be accrued at each Valuation Date (as defined herein) as a liability of the Fund, ultimately reducing the NAV per Unit. The redemption price received by an investor whose Units are redeemed will reflect an accrual for performance bonuses, based on any increase in NAV per Unit from the beginning of the fiscal year through the date of redemption. However, the accrual of performance bonuses may subsequently be reversed if the Fund's performance declines, and no adjustment to a redemption price will be made after it has been fixed.

Unitholders are not Entitled to Participate in Management

Unless otherwise stated in the Declaration of Trust, Unitholders are not entitled to participate in the management of the Fund or its operations. Unitholders do not have any input into the Portfolio Advisor's trading activities. The success or failure of the Fund will ultimately depend on the investment of the assets of the Fund by the Portfolio Advisor with whom the Unitholders will not have any direct dealings or interest.

Reliance on the Portfolio Advisor

The Portfolio Advisor will manage the Portfolio held by the Fund in a manner consistent with the investment objectives and the investment restrictions of the Fund. The officers of East Coast who are primarily responsible for the portfolio management of the Portfolio have extensive experience in managing investment portfolios; however, there is no certainty that such individuals, including Mike MacBain, will continue to be employees of East Coast until the termination of the Fund.

Reliance on the Manager

Arrow will manage the Fund in a manner consistent with the investment objectives and the investment restrictions of the Fund. The officers of Arrow who are primarily responsible for the management of the Fund have experience in managing closed-end funds but there is no certainty that such officers will continue to be employees of Arrow until the termination of the Fund.

Potential Indemnification Obligations

Under certain circumstances, the Fund might be subject to significant indemnification obligations in favour of the Manager or certain parties related to the Manager. The Fund will not carry any insurance to cover such potential obligations and, to the Manager's knowledge, none of the foregoing parties will be insured for losses for which the Fund has agreed to indemnify them. Any indemnification paid by the Fund would reduce the NAV of the Fund and, by extension, the NAV per Unit.

Pledging of Assets

Some or all of the assets of the Fund may be held in one or more margin or collateral accounts due to the fact that the Fund may engage in securities lending, repurchase transactions, reverse repurchase transactions or derivative transactions, which may result in a potential loss of such assets or delay in accessing such assets if the relevant broker or counterparty experiences financial difficulty. In such case, the Fund may experience losses which would adversely affect the total return to the Fund. Furthermore, from time to time, certain of the assets of the Fund may be held in one or more margin accounts to facilitate the Fund to sell securities short. In respect of this sub-set of assets, the margin accounts may provide less segregation of customer assets than would be the case with a more conventional custody arrangement and such assets may be pledged or hypothecated, which may result in a potential loss of such assets. The sub-set of assets of the Fund held in the margin accounts could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time if the prime broker providing the margin account experiences financial difficulty. In such case, the Fund may experience losses due to insufficient assets of the prime broker to satisfy the claims of its creditors, and adverse market movements while its positions cannot be traded, and which would adversely affect the total return to the Fund.

Valuation of the Fund Investments

Valuation of the Portfolio may involve uncertainties and judgmental determinations and, if such valuations should prove to be incorrect, the NAV of the Fund could be adversely affected. Independent pricing information may not at times be available regarding certain of the Fund's securities and other assets. Valuation determinations will be made in good faith in accordance with the Declaration of Trust.

The Fund may have some of its assets in investments which, by their very nature, may be extremely difficult to value accurately. To the extent that the value determined by the Valuation Agent for any such investment differs from its actual value, the NAV per Unit may be understated or overstated, as the case may be. In light of the foregoing, there is a risk that a Unitholder who redeems all or part of his, her or its Units while the Fund holds such investments will be paid an amount less than such Unitholder would otherwise be paid if the actual value of such investments is higher than the value determined by the Valuation Agent. Similarly, there is a risk that such Unitholder might, in effect, be overpaid if the actual value of such investments is lower than the value determined by the Valuation Agent. In addition, there is a risk that an investment in the Fund by a new Unitholder (or an additional investment by an existing Unitholder) could dilute the value of such investments for the other Unitholders, including, indirectly, the Fund, if the actual value of such investments is higher than the value determined by the Valuation Agent. Furthermore, there is a risk that a new Unitholder (or an additional investment by an existing Unitholder) could pay more to purchase Units than the Unitholder might otherwise be required to pay if the actual value of such investments is lower than the value determined by the Valuation Agent. The Fund does not intend to adjust the NAV per Unit retroactively.

Trading Price of Units

The Units may trade in the market at a discount to the NAV per Unit and there can be no assurance that the Units will trade at a price equal to the NAV per Unit.

Changes in Legislation

There can be no assurance that certain laws applicable to the Fund, including income tax laws, government incentive programs and the treatment of mutual fund trusts under the Tax Act, will not be changed in a manner that adversely affects the Fund or Unitholders.

Furthermore, there can be no assurance that certain securities laws applicable to the Fund and other non-redeemable investment funds will not be changed in a manner that adversely affects the Fund or Unitholders. In particular, on September 22, 2016 the Canadian Securities Administrators published *CSA Notice and Request for Comment Modernization of Investment Fund Product Regulation – Alternative Funds* setting out proposed changes to NI 81-102, National Instrument 81-104 *Commodity Pools*, and related instruments (the "**Alternative Funds**

**Framework**”). If the Alternative Funds Framework is implemented as currently proposed, it may adversely affects the Fund or Unitholders.

Taxation of the Fund

If the Fund were to cease to qualify as a mutual fund trust, the income tax considerations as described under “*Income Tax Considerations*” would in some respects be materially and adversely different. There can be no assurance that Canadian federal and provincial income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Fund or the Unitholders.

The SIFT rules will apply to a mutual fund trust that is a “SIFT trust” for the purposes of the Tax Act. The Fund should not be a SIFT trust for the purposes of these rules because the Fund should not hold “non-portfolio property”, as defined in the SIFT rules, based on its investment restrictions, as described under the heading “*Investment Strategies - Investment Restrictions of the Fund*”. If the SIFT rules were to apply to the Fund, they may have an adverse impact on the Fund including on the distributions received by Unitholders and/or the value of the Units.

The Fund will treat gains and losses realized on the disposition of securities held by it as dispositions of capital property with the result that gains and losses will be treated as capital gains or capital losses for the purposes of the Tax Act. Should the CRA conclude successfully that the disposition of securities other than Canadian securities (as defined in the Tax Act), are dispositions on account of income, the income of the Fund for tax purposes and the taxable component of distributions to Unitholders could increase. Any such redetermination by the CRA may result further in the Fund and any Unitholders who are not resident in Canada for the purposes of the Tax Act being jointly liable for unremitted withholding taxes on prior distributions made to Unitholders who were not resident in Canada at the time of the distribution. Such potential liability may reduce NAV, NAV per Unit and/or the trading prices of the Units.

Under new U.S. tax rules, Unitholders of the Fund may be required to provide identity and residency information to the Fund, which may be provided by the Fund to U.S. tax authorities, in order to avoid a 30% U.S. withholding tax being imposed on certain income and on sale proceeds received by the Fund. In certain circumstances, the Fund may be required to withhold a 30% tax from distributions it pays to Unitholders who have not provided the required information. It is unclear at the current time whether the Fund and Unitholders may be exempt from these requirements.

No Ownership Interest

An investment in Units does not constitute an investment by Unitholders in the securities included in the Portfolio. Unitholders will not own the securities held by the Fund.

Conflicts of Interest – The Fund

The Manager, the Portfolio Advisor and their officers and directors engage in the promotion, management or investment management of one or more funds or trusts with similar investment objectives to those of the Fund. Although none of the directors or officers of the Manager or the Portfolio Advisor will devote his or her full time to the business and affairs of the Fund, each director and officer of the Manager and Portfolio Advisor will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund.

Status of the Fund

The Fund is non-redeemable investment fund that is a reporting issuer under the securities legislation of all the provinces and territories of Canada. Consequently, the Fund is subject to the various policies and regulations that apply to non-redeemable investment funds that are reporting issuers, including parts of NI 81-102, as well as National Instrument 81-106 *Investment Fund Continuous Disclosure* and NI 81-107. The Fund is not a “mutual fund” under applicable securities legislation and is not subject to the added regulation applicable to mutual funds.

Not a Trust Company

The Fund is not a trust company and, accordingly, is not registered under the trust company legislation of any jurisdiction. Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under provisions of that statute or any other legislation.

Nature of Units

The Units are neither fixed income nor equity securities. The Units represent a fractional interest in the net assets of the Fund. Units are dissimilar to debt instruments in that there is no principal amount owing to Unitholders. Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions.

**Risks Associated with the Fund's Portfolio**

General Economic and Market Conditions

The success of the Fund's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of the Fund's investments. Unexpected volatility or illiquidity could impair the Fund's profitability or result in losses.

Market Call

The Portfolio Advisor intends to invest in opportunities that provide what the Portfolio Advisor, at the time of investment, believes to be the best reward per unit of risk. The Portfolio Advisor also intends to optimize the reward per unit of risk of the Portfolio by varying the allocation of long and short positions depending on the Portfolio Advisor's view of the domestic and international economy and market trends, and other considerations.

The Portfolio will be positioned in accordance with the Portfolio Advisor's market view. There is no assurance that the Portfolio Advisor's assessment of the market will be correct and result in positive returns. Losses may occur as a result of any incorrect assessment.

General Risks of Investing in Bonds

Generally, bonds will decrease in value when interest rates rise and increase in value when interest rates decline. The NAV of the Fund will fluctuate with interest rate changes and the corresponding changes in the value of the securities in the Portfolio. The value of bonds is also affected by the risk of default in the payment of interest and principal and price changes due to such factors as general economic conditions and the issuer's creditworthiness. Corporate bonds may not pay interest or their issuers may default on their obligations to pay interest and/or principal amounts. Certain of the bonds that may be included in the Portfolio from time to time may be unsecured, which would increase the risk of loss in case of default or insolvency of the issuer. Global financial markets have experienced a significant re-pricing in recent months that has contributed to a reduction in liquidity and the availability of credit, enhancing the likelihood of default by some issuers due to diminishing profitability or an inability to refinance existing debt.

Risks of Investing in Investment Grade Debt

Investment Grade Debt involves greater risks than government bonds, including risks of default in the payment of interest and principal, lower recovery rates on a bond that is in default and greater price changes due to such factors as general economic conditions and the issuer's creditworthiness. Such securities can be regarded as predominantly speculative and involve certain risk exposure to adverse conditions and may be subject to substantial price volatility, especially during times of economic change. Lower rated debt may be less liquid than investment rated securities. During periods of thin trading, the spread between bid and ask prices is likely to increase significantly and the Portfolio Advisor may have difficulty selling such securities. There are no formal exchanges on which such

Investment Grade Debt trades. Accordingly, there may be limited liquidity for holders of such Investment Grade Debt.

Credit Risk

The investments of the Portfolio in bonds will expose the Portfolio to the credit risk of the underlying issuers including risk of default on interest and principal and the risk that the credit ratings of such issuers may be downgraded in certain circumstances. Real or anticipated changes in the credit ratings on bonds held in the Portfolio may affect the market value of such bonds.

Interest Rate Fluctuations

It is anticipated that the market price for the Units at any given time will be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Units. Unitholders who wish to redeem or sell their Units may, therefore, be exposed to the risk that the redemption price or sale price of the Units will be negatively affected by interest rate fluctuations.

Non-Investment Grade Debt Securities

The Portfolio may invest a portion of its assets in non-investment grade debt securities, also referred to as high yield debt securities. Such instruments may be issued by companies that are in financial difficulty, and may be in, or emerging from, bankruptcy proceedings or other legally-mandated forms of liquidation proceedings. While the investment objectives of the Fund imply potentially higher yields on investments, to the extent that it involves the purchase of distressed or bankrupt securities or junk bonds or other high yield instruments, such investments also entail a higher risk of loss of capital. In addition, high yield debt instruments generally represent a higher credit risk. Distressed securities carry with them a higher credit risk as well as a higher "deal risk" (e.g., the process of restructuring the issuer of distressed securities may result in those securities being converted into a security or securities having lower potential value and/or higher risk). The length and complexity of bankruptcy and other insolvency proceedings may make it difficult for the Fund to realize upon its investments when it desires. Such proceedings may be governed by Canadian, U.S. or non-North American bankruptcy regimes.

Currency Exposure

As the Portfolio will be invested in securities traded in United States dollars, the NAV of the Fund, when measured in Canadian dollars, will, to the extent this has not been hedged against, be affected by changes in the value of the United States dollar relative to the Canadian dollar. The Fund may not be fully hedged at all times. Accordingly, no assurance can be given that the Fund will not be adversely impacted by changes in foreign exchange rates or other factors. The use of hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Portfolio Advisor's assessment of certain market movements is incorrect, the risk that the use of hedges could reduce total returns or result in losses greater than if the hedging had not been used. In addition, the costs associated with a hedging program may outweigh the benefits of the arrangements in such circumstances.

Foreign Investment Risk

To the extent that the Portfolio holds securities of foreign issuers, it will be affected by world economic factors. Obtaining complete information about potential investments from foreign markets may also be of greater difficulty. Foreign issuers may not follow certain standards that are applicable in North America, such as accounting, auditing, financial reporting and other disclosure requirements. Political climates may differ, affecting stability and volatility in foreign markets. As a result, the Portfolio's value may fluctuate to a greater degree by investing in foreign equities than if the Portfolio limited its investments to Canadian securities.

Derivative Instruments

In using derivatives, the Portfolio is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by the Portfolio of margin deposits in the event of the bankruptcy of the dealer with whom the Portfolio has an open position in an option or futures or forward contract. The ability of the Portfolio to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If the Portfolio is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures, forward and swap positions could also have an adverse impact on the Portfolio's ability to use derivative instruments to effectively hedge or implement its investment strategy.

Foreign exchange, interest rate, credit and commodity hedges will be used by the Portfolio only to the extent that the Portfolio Advisor considers appropriate and as described under "*Investment Objective*", "*Investment Strategies*" and "*Investment Strategies – Investment Restrictions of the Fund*". The Portfolio will not be hedged at all times and accordingly no assurance can be given that the Portfolio will not be adversely impacted by changes in foreign exchange rates, interest rates or commodity prices. The use of hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Portfolio Advisor's assessment of certain market movements is incorrect, the risk that the use of hedges could result in losses greater than if the hedging had not been used. The hedging arrangements may have the effect of limiting or reducing the total returns to the Portfolio if the Portfolio Advisor's expectations concerning future events or market conditions prove to be incorrect. In addition, the costs associated with the hedging program may outweigh the benefits of the arrangements in such circumstances.

Trading Costs

The Fund may engage in a high rate of trading activity resulting in correspondingly high transaction costs being borne by the Fund.

**Risks of Special Investment Strategies and Techniques**

The special investment strategies and techniques that the Portfolio Advisor may use are subject to risks including those summarized below.

Use of Short Selling

Selling securities short may result in the loss of an amount greater than the amount invested since there is theoretically no limit to the price to which the securities that have been sold short may rise before the short position is closed out. In addition, the supply of securities that can be borrowed in order to maintain short positions fluctuates from time to time. There is no assurance that the lender of securities or financial instruments will not require the security to be repaid before the Portfolio Advisor wishes to do so, thereby requiring the Fund to borrow the security elsewhere or purchase the security in the market at an unattractive price. In addition, the borrowing of securities entails the payment of a borrowing fee. There is no assurance that any borrowing fee will not increase during the borrowing period, adding to the expense of a short sale strategy. In addition, there is no assurance that a security sold short can be repurchased due to supply and demand constraints in the marketplace.

Concentration of the Portfolio

The composition of the securities included in the Portfolio taken as a whole may vary widely from time to time and may be concentrated by commodity, industry or geography, resulting in the securities included in the Portfolio being less diversified than anticipated. Overweighting investments in certain sectors or industries involves risk that the Fund will suffer a loss because of declines in the prices of securities in those sectors or industries.

Liquidity of Underlying Instruments

Some of the securities in which the Portfolio Advisor intends to invest may be thinly traded. It is possible that the Portfolio may not be able to sell or repurchase significant portions of such positions without facing substantially adverse prices. If the Fund is required to transact in such securities before its intended investment horizon, the performance of the Fund could suffer.

Hedging

Although a hedge is intended to reduce risk, it does not eliminate risk entirely. A hedging strategy may not be effective. A hedge can result in a loss in the case of an extraordinary event. There are several such possible cases including, but not limited to: (i) a cease trade order being issued in respect of the underlying security; (ii) the inability to maintain a short position due to the repurchase or redemption of shares by the issuing company; (iii) disappearance of any conversion premium due to premature redemptions, changes in conversion terms or changes in an issuer's dividend policy; (iv) credit quality considerations, such as bond defaults; and (v) lack of liquidity during market panics.

Securities Lending, Repurchase and Reverse Repurchase Transactions

The Fund may enter into securities lending, repurchase transactions and reverse repurchase transactions in order to generate additional returns and/or to acquire securities for the purpose of entering into short sale transactions. Securities lending involves lending securities held by the Portfolio to qualified borrowers who have posted collateral. In lending its securities the Fund is subject to the risk that the borrower may not fulfill its obligations, leaving the Fund holding collateral worth less than the securities it has lent, resulting in a loss to the Fund. The Portfolio Advisor will reduce the risk to the Portfolio by requiring the other party to put up collateral.

A repurchase transaction involves the Fund selling a security at one price and agreeing to buy it back from the same party at a higher price. A reverse repurchase transaction involves the Fund buying a security at one price and agreeing to sell it back to the same party at a higher price. Over time, the value of the securities sold under a repurchase transaction might exceed the value of the collateral held by the Fund. If the other party defaults on its obligation to resell the securities to the Fund the collateral may be insufficient to enable the Fund to purchase replacement securities and the Fund may suffer a loss for the difference. Similarly, over time, the value of the securities purchased by the Fund under a reverse repurchase transaction may decline below the amount of cash paid by the Fund to the other party. If the other party defaults on its obligation to repurchase the securities from the Fund, the Fund may need to sell the securities for a lower price and suffer a loss for the difference.

Use of Leverage

The Fund may utilize a loan facility or other forms of leverage in order to implement its investment strategies. While leverage may increase the potential for total returns, it may also potentially increase losses. If income and appreciation on investments made with borrowed funds are less than the cost of leverage, the value of the Fund's net assets will decrease. Any event which adversely affects the value of an investment held by the Fund will be magnified to the extent leverage is employed. Many leveraged transactions involve the posting of collateral. Increases in the amount of margin or similar payments could result in the need for trading at times or prices that are disadvantageous to the Fund and which could result in a loss for the Fund.

Suspension of Trading

Securities exchanges typically have the right to suspend or limit trading in any instrument traded on an exchange, clearing corporation or derivate exchange. A suspension would render it impossible to liquidate positions and could thereby expose the Fund to losses.

# CALCULATION OF NET ASSET VALUE

### Calculation of Net Asset Value

The NAV of the Fund will be calculated as of 4:00 p.m. (Toronto time) every business day or such other time as the Valuation Agent deems appropriate (each, a "**Valuation Date**").

### Reporting of Net Asset Value

The most recently calculated NAV of the Fund and the NAV per Unit will be available to the public upon request and the NAV per Unit will be posted weekly at www.arrow-capital.com. The Fund's NAV and NAV per Unit will be reported in Canadian dollars.

### Valuation Policies and Procedures of the Fund

For reporting purposes other than financial statements, the NAV of the Fund on a particular date will be equal to: (i) the aggregate value of the assets of the Fund less (ii) the aggregate value of the liabilities of the Fund. The NAV per Unit on a particular date will be equal to the NAV of the Fund, including an allocation of any net realized capital gains or other amounts payable to unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The NAV per Unit on any day will be obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding.

For the purpose of calculating NAV of the Fund on a Valuation Date, the value of the aggregate assets, and any short positions, of the Fund on such Valuation Date will be determined as follows:

(a) the value of any cash on hand or on deposit, bill, demand note, account receivable, prepaid expense, distribution, or other amount receivable (or declared to holders of record of securities owned on a date before the Valuation Date as of which the value of the assets is being determined, and to be receivable) and interest accrued and not yet received will be deemed to be the full amount thereof provided that if the Valuation Agent has determined that any such deposit, bill, demand note, account receivable, prepaid expense, distribution, or other amount receivable (or declared to holders of record of securities owned on a date before the Valuation Date as of which the value of the assets is being determined, and to be receivable) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof will be deemed to be such value as the Valuation Agent determines to be the fair value thereof;

(b) the value of any bonds, debentures, other debt obligations and short positions will be valued by taking the average of the bid and ask prices quoted by a major dealer or recognized information provider in such securities on a Valuation Date at such times as the Valuation Agent, in its discretion, deems appropriate. Short-term investments including notes and money market instruments will be valued at cost plus accrued interest;

(c) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal stock exchange for the security, as determined by the Valuation Agent) will be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Valuation Agent such value does not reflect the value thereof and in which case the latest offer price or bid price will be used), as at the Valuation Date on which the value of the assets is being determined, all as reported by any means in common use;

(d) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer or recognized information provider in such securities;

(e) the value of any security or other asset for which a market quotation is not readily available will be its fair value on the Valuation Date on which the value of the assets is being determined as determined by the

Valuation Agent (generally the Valuation Agent will value such security at cost until there is a clear indication of an increase or decrease in value);

(f) any market price reported in currency other than Canadian dollars will be translated into Canadian currency at the rate of exchange available from the Custodian on the Valuation Date on which the value of the assets is being determined;

(g) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Valuation Agent and investments in private companies and other assets for which no published market exists will be valued at the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair value is determined to be appropriate by Valuation Agent;

(h) the value of any forward contract will be the value that would be realized by the Fund if, on the date on which the value of the assets is being determined, the forward contract were closed out in accordance with its terms; and

(i) the value of any security or property to which, in the opinion of the Valuation Agent, the application of the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) will be the fair value thereof determined in good faith in such manner as the Valuation Agent from time to time adopts.

If an investment cannot be valued under the above guidelines, or if the Valuation Agent, the Manager or the Portfolio Advisor determines that the above guidelines are at any time inappropriate under the circumstances, then notwithstanding such guidelines, the Valuation Agent will make such valuation as it considers fair and reasonable in consultation with the Manager or the Portfolio Advisor and, if there is an appropriate industry practice, in a manner consistent with such industry practice for valuing such investment.

The Manager and the Portfolio Advisor will review and, if required from time to time, consider the appropriateness of the valuation guidelines adopted by the Fund. As such, at the discretion of the Manager the valuation guidelines may be modified, acting reasonably, in good faith and in the best interests of the Unitholders. Any such material modification of the valuation guidelines will be disclosed by press release or other timely disclosure document issued by the Fund.

The NAV per Unit will be calculated in Canadian dollars in accordance with the rules and policies of the Canadian Securities Administrators or in accordance with any exemption therefrom that the Fund may obtain.

## MATERIAL CONTRACTS

Contracts material to investors in the Units that have been entered into by the Fund or by the Manager on behalf of the Fund as of the date hereof are:

(i) the Declaration of Trust described under "*The Fund*" and "*Description of the Units of the Fund – Meetings of Unitholders and Matters Requiring Unitholder Approval*";

(ii) the Management Agreement forming part of the Declaration of Trust described under "*Organization and Management Details of the Fund – The Trustee and Manager of the Fund*";

(iii) the Portfolio Advisory Agreement described under "*Organization and Management Details of the Fund – The Portfolio Advisor*"; and

(iv) the Custodian Agreement referred to under "*Organization and Management Details of the Fund – The Custodian*".

Copies of the foregoing agreements may be inspected during business hours at the principal office of the Fund and the Manager upon request at no cost.

## LEGAL MATTERS

Unless otherwise specified in a Prospectus Supplement, certain legal matters relating to the Fund and the Units will be passed on by Wildeboer Dellelce LLP, Toronto, Ontario. As of the date hereof, the partners and associates of Wildeboer Dellelce LLP as a group own less than 1% of the outstanding Units.

The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Professional Accountants, at PwC Tower, 18 York Street – Suite 2600, Toronto, Ontario M5J 0B2. The auditors of the Fund have confirmed that they are independent of the Fund within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

## PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

## CERTIFICATE OF THE TRUSTEE, THE MANAGER AND THE PROMOTER

Dated: April 25, 2017

This short form prospectus, together with the documents incorporated in this prospectus by reference, will, as of the date of the last supplement to this prospectus relating to the securities offered by this prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces and territories of Canada, other than the province of Quebec.

**EAST COAST INVESTMENT GRADE INCOME FUND**
by its trustee and manager,
ARROW CAPITAL MANAGEMENT INC.

(Signed) *"JAMES MCGOVERN"*
Chief Executive Officer

(Signed) *"ROBERT MAXWELL"*
Chief Financial Officer

On behalf of the Board of Directors
of ARROW CAPITAL MANAGEMENT INC.

(Signed) *"FREDERICK DALLEY"*
Director

(Signed) *"MARK PURDY"*
Director

**ARROW CAPITAL MANAGEMENT INC.**
as manager and promoter,

(Signed) *"JAMES MCGOVERN"*
Chief Executive Officer