

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2018

Management Report of Fund Performance

This management report of fund performance contains financial highlights but does not contain the complete audited financial statements for East Coast Investment Grade Income Fund (the "Fund"). If you have not received a copy of the audited annual financial statements with the management report of fund performance, you may obtain a copy of the audited annual financial statements, at no cost, by calling 1-877-327-6048 or by sending a request to Arrow Capital Management Inc. (the "Manager"), 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5, or by visiting our website at www.arrow-capital.com or SEDAR at www.sedar.com.

Unitholders may also contact us by using one of these methods to request a copy of the Fund's annual financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

The Fund

The Fund is a closed-end investment trust managed by the Manager. The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol ECF.UN. East Coast Fund Management Inc. (the "Portfolio Advisor"), is the portfolio advisor of the Fund.

Investment Objectives and Strategies

The Fund's investment objectives are to provide Unitholders with attractive monthly cash distributions, while preserving capital through an actively managed, diversified portfolio of investment grade debt securities 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 portfolio consists primarily of corporate investment grade debt securities and government bonds. Distributions are targeted to be \$0.04 per month per unit.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's prospectus dated April 26, 2012 (the "Prospectus"), which is available on the Fund's website at www.arrow-capital.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the units of the Fund.

Results of Operations

Investment Portfolio

As of December 31, 2018, the Fund's portfolio included a total of 105 (December 31, 2017 – 82) corporate investment grade debt securities held both long and short, the net representing approximately 409.0% (December 31, 2017 – 451.4%) of the net assets of the Fund.

As part of its investment strategy, the Fund sells government bonds short and invests its proceeds in corporate investment grade debt securities. Incorporating short sales also enhances the portfolio yield and allows the Fund to offset some or all of the interest rate risk on that portion of the portfolio. As at December 31, 2018, the Fund had \$404.5 million (December 31, 2017 - \$299.9 million) fixed income short positions and a related unrealized loss of \$6.6 million (December 31, 2017 - \$3.6 million unrealized gain) from short sales.

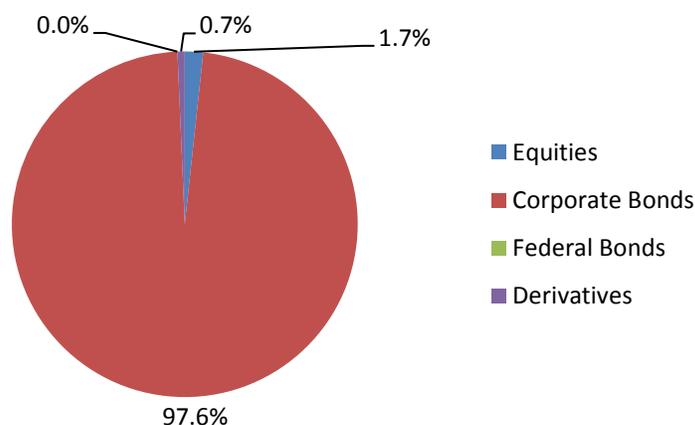
The breakdown of the portfolio by industry is shown in the accompanying pie chart. A detailed listing of Fund's security holdings is provided in the financial statements.

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Portfolio Sectors



During the year, the Fund generated net realized and unrealized loss of \$(4.5) million (December 31, 2017 – gain \$1.6 million), including net realized and unrealized gains from derivatives of \$3.0 million (December 31, 2017 – loss \$0.6 million).

Revenues, Expenses and Distributions

The Fund earned interest income of \$0.72 per unit during the year including interest expense on short sales. Total expenses of the Fund for the year were \$0.27 per unit including security borrowing expenses of \$0.1 per unit. During the year ended December 31, 2018, The Fund declared monthly cash distributions to unitholders through the year at the targeted monthly rate of \$0.04 (December 31, 2017 - \$0.05), which totaled \$0.48 per unit for the year (December 31, 2017 - \$0.60).

Net Asset Value

The Net Asset Value of the Fund is dependent upon the performance of the Fund's portfolio. The aggregate Net Asset Value of the Fund as at December 31, 2018 was \$124.8 million, up from \$84.5 million at December 31, 2017. During the year, the Net Asset Value per unit decreased by \$0.35, from \$9.49 at December 31, 2017 to \$9.14 as at December 31, 2018 (December 31, 2017 - increase of \$0.01 from \$9.48 to \$9.49). There were distributions to unitholders of \$5.6 million during the year.

Liquidity

To provide liquidity for unitholders, units of the Fund are listed on the TSX under the symbol ECF.UN. During the year, units of the Fund traded at an average premium to their Net Asset Value per unit of 2.4% (December 31, 2017 – premium of 2.7%). Investors may also redeem their units in accordance with the Fund's redemption provisions.

Redemption

The Fund had redemptions during the year of \$nil (December 31, 2017 - \$nil million).

Related Party Transactions

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

On April 17, 2017, the Management Agreement between the Fund and the Manager (the "Management Agreement") was amended to reflect changes made to the investment mandate of the Fund to hold securities directly instead of through a Forward Contract with an Underlying Fund. The Manager is entitled to a single management fee of 1.25%

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per annum on the NAV of the Fund, instead of an aggregate direct and indirect management fee of approximately 1.25%. Management fees are calculated and paid as of the last Valuation date of each month.

The Manager is also entitled to receive an annual Performance Fee from the Fund. Further to changes made in the Management Agreement, effective April 17, 2017 the annual Performance Fee is equal to 10% of the increase in net asset value of the Fund (including any distributions paid on the units of the Fund), subject to an annual hurdle rate of 4%. Prior to April 17, 2017 the hurdle rate was 5.3%.

The performance fee shall be calculated daily and payable on the last valuation date of each calendar year, except when units of the Fund are redeemed on the applicable redemption date, in which case, the Fund will pay a Performance Fee in respect of any redeemed units of the Fund (the "Annual Performance Fee"). The Annual Performance Fees shall be payable on the applicable redemption date. For any partial fiscal year, including with respect to Annual Performance Fees the hurdle rate will be pro-rated. During the year ended December 31, 2018, the Manager earned \$nil in Performance Fees (December 31, 2017: \$216,061).

The Fund is responsible for all operating expenses incurred by or on behalf of the Fund.

As at December 31, 2018, included in other liabilities are amounts owing to the Manager relating to management fees of \$133,196 (excluding HST) (December 31, 2017: \$89,991). Also included in other liabilities are amounts owing to the Manager for administration expenses paid on behalf of the Fund by the Manager in the amount of \$21,312 (December 31, 2017: \$23,256).

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit.* The increase (decrease) in Net Assets from operations is based on average units outstanding during the year, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Assets per Unit For the year ended December 31, 2018 and for the years ended December 31,	2018	2017	2016	2015	2014
	\$	\$	\$	\$	\$
Net Assets per unit, beginning of year / year ⁽¹⁾	9.49	9.48	9.15	10.30	11.00
Increase (decrease) from operations⁽¹⁾					
Total revenue	0.72	0.60	-	-	-
Total expenses	(0.27)	(0.29)	(0.08)	(0.09)	(0.10)
Realized gains	0.08	1.13	0.16	0.23	0.16
Unrealized gains	(0.47)	(0.87)	0.84	(0.63)	(0.15)
Total increase (decrease) in Net Assets from operations⁽¹⁾	0.06	0.57	0.92	(0.49)	(0.09)
Distributions to unitholders:⁽¹⁾					
Return of capital	(0.48)	(0.60)	(0.60)	(0.60)	(0.60)
Total distributions to unitholders⁽¹⁾	(0.48)	(0.60)	(0.60)	(0.60)	(0.60)
Net Assets per unit, end of year / year^{(1) (3)}	9.14	9.49	9.48	9.15	10.30

- (1) The net assets per unit shown for December 31, 2018, December 31, 2017, December 31, 2016, December 31, 2015 and December 31, 2014 are referenced to net assets attributable to holders of redeemable units determined in accordance with IFRS and are derived from the Fund's audited annual financial statements. The net assets per unit shown for prior years are referenced to Net Assets determined in accordance with Canadian generally accepted accounting principles ("GAAP") and are derived from the Fund's audited annual financial statements. The Net Assets presented in the audited annual financial statements may differ from the NAV calculated for fund pricing purposes. NAV is calculated using fair value measures as

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defined by National Instrument 81-106 ("NI 81-106"), whereas Net Assets are calculated in accordance with IFRS/GAAP. An explanation of these differences can be found in the notes to the audited annual financial statements. Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial year. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

- (2) Distributions were paid in cash.

Ratios and Supplemental Data (Based on Net Asset Value)					
For the year ended December 31, 2018 and for the years ended					
December 31,	2018	2017	2016	2015	2014
Net Asset Value (in 000s)	\$124,767	\$84,450	\$46,090	\$50,039	\$94,655
Number of units outstanding (in 000s)	13,649	8,894	4,862	5,470	9,186
Management expense ratio ("MER") ⁽¹⁾	1.66%	2.20%	3.85%	2.20%	2.15%
Trading expense ratio ⁽²⁾	1.24%	0.84%	1.07%	0.72%	0.42%
Portfolio turnover rate ⁽³⁾	390.09%	294.3%	434.36%	175.94%	137.74%
Net Asset Value per unit	\$9.14	\$9.49	\$9.48	\$9.15	\$10.30
Closing market price	\$9.00	\$10.06	\$9.50	\$8.45	\$9.95

*Ratios have been annualized

- (1) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions, margin interest, security borrowing costs, and other portfolio transaction costs) of the Fund and Underlying Fund for the stated year, including issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the year.
- (2) The trading expense ratio represents total commissions, margin interest, and security borrowing costs of the Fund and Underlying Fund expressed as an annualized percentage of the daily average Net Asset Value of the Fund during the year.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rates in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities of Fund or Underlying Fund for the year, excluding cash and short-term investments maturing in less than one year, by the average market value of investments of Fund or Underlying Fund during the year.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions made by the Fund on its units in the year shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

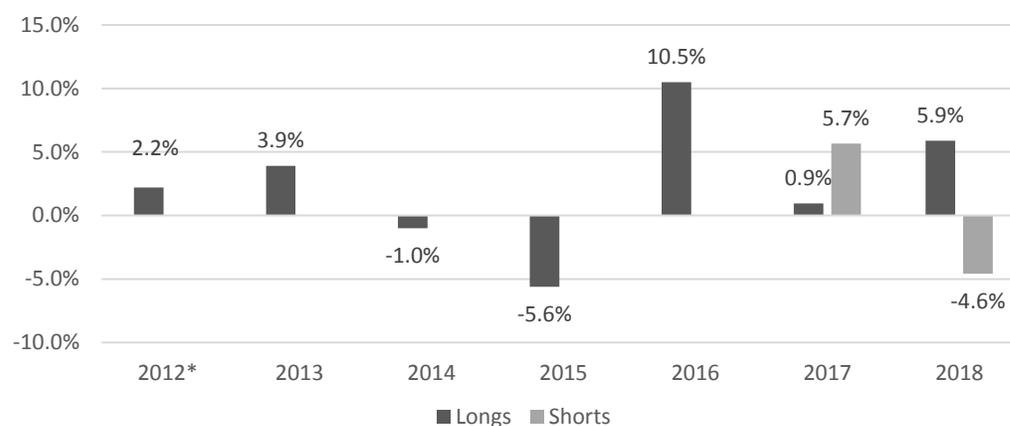
The bar chart shows the Fund's overall total return for each year since inception. The chart shows, in percentage terms, how an investment held on the first day of the fiscal year would have changed by the last day of the fiscal year.

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Year-by-Year Returns



* Represents partial year

Annual Compound Returns

The following table shows the Fund's return for the year indicated, compared with the FTSE TMX Canada Universe Bond Index.

The benchmark index is calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

The following table shows the compound total returns of the Fund for the year ended December 31.

	1 Year %	3 Years %	5 Years %	Annualized Since Inception ⁽¹⁾ %
East Coast Investment Grade Income Fund	1.33	6.09	2.21	2.57
FTSE TMX Canada Universe Bond	1.41	1.86	3.54	3.02

(1) Year from May 18, 2012 (commencement of operations) to December 31, 2018.

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Summary of Investment Portfolio as at December 31, 2018

The summary of investment portfolio below includes information regarding the Fund as a whole. This summary may change due to ongoing portfolio transactions of the Fund and a quarterly update is available by contacting Arrow at 877.327.6048 or by visiting Arrow's website at www.arrow-capital.com

Top 25 Holdings		Portfolio Composition	
Security Name	% of Net Asset Value		% of Net Asset Value
Long Positions		Corporate Bonds	417.6
Bank of Nova Scotia 2.4% 10/28/2019	24.00	Federal Bonds	0.0
Merrill Lynch & Co. Inc. (2) 3.17% 05/30/2022	21.00	Equities	7.3
Toronto-Dominion Bank (The) 2.25% 07/31/2019	20.90	Derivatives	3.0
National Bank of Canada 2.4% 10/28/2019	11.00	Total Long Positions	<u>427.9</u>
Ford Credit Canada Co. 3.13% 09/21/2020	10.80		
Goldman Sachs Group Inc. (The) (2) 2.43% 04/26/2023	10.40	Corporate Bonds	(8.6)
Bank of Montreal (2) 3.12% 09/19/2024	10.10	Federal Bonds	(315.6)
Royal Bank of Canada 2.35% 12/09/2019	9.80	Derivatives	(0.4)
Enbridge Inc. 2.82% 05/24/2019	9.00	Total Short Positions	<u>(324.6)</u>
Sun Life Financial Inc. (2) 2.6% 09/25/2025	8.40		
SmartCentres REIT, Series 'L' 3.75% 02/11/2021	7.60		
Royal Bank of Canada (2) 3.0% 07/17/2024	7.50	Credit Rating	
Canadian Natural Resources Ltd., Series '2' 2.89% 08/14/2020	<u>7.10</u>	AAA	-
Total long positions	<u>157.60</u>	AA	18.1
		A	16.4
Short Positions		BBB	46.1
Government of Canada 10% 06/01/2027	(87.80)	Below BBB	-
Government of Canada 0.75% 09/01/2020	(42.60)	Not Rated	<u>19.4</u>
Government of Canada 3.5% 06/01/2020	(34.60)	Total	<u>100.0</u>
Government of Canada 0.75% 03/01/2021	(32.00)		
Government of Canada 15% 03/01/2020	(26.00)		
Government of Canada 0.75% 09/01/2021	(16.00)		
Government of Canada 0.5% 03/01/2022	(12.70)		
Government of Canada 3.75% 06/01/2019	(12.10)		
Government of Canada 2.75% 06/01/2022	(11.60)		
Government of Canada 0.75% 08/01/2019	(11.00)		
Government of Canada 3.25% 06/01/2021	(9.30)		
Government of Canada 15% 06/01/2023	<u>(7.90)</u>		
Total Short Positions	(303.60)		
Total	<u>(146.0)</u>		
Total Net Asset Value (in \$ millions)	<u>124.8</u>		

The summary of Investment Portfolio may change due to ongoing portfolio transactions. A quarterly update is available.

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Portfolio Advisor

East Coast Fund Management Inc. ("ECFMI"), incorporated under Business Corporations Act (Ontario) on June 22, 2009, is the portfolio advisor of the Fund. ECFMI is responsible for all portfolio advisory and investment management services that are provided to the Fund.

Portfolio Advisor Report

For the year ended December 31, 2018

Results of Operations

It's fair to assume almost every trader on the planet was happy to kiss 2018 goodbye – with the S&P 500 -9.0% (even after a 6% bounce from the lows) and the S&P TSX -5.4% in December alone. On the year, equity markets were down -9% in Canada and -4% in the U. S., it is probably fair to say all asset classes were extremely pressured in 2018 – in fact, even "risk-free" assets such as Government bonds hadn't made a positive return on the year until Q4 and only posted a +2.7% after strong November and December months. Interest rates were extremely volatile – moving 20bps+ in a single month multiple times over the course of 2018 – but closing the year virtually unchanged. Canadian interest rate curve ended the year with 10yr Canadian bonds trading less than 0.25% above the O/N rate.

Canadian credit spreads which had already weakened on the year saw massive widening in Q4:

Canadian IG spreads were weaker by 39bps in Q4 and widened a total of 53bps in 2018 (or 62bps from February tights). This is in line with U.S. IG credit spreads.

Risk finally started to re-price, as premiums increased in Q4, after having been non-existent through the first three quarters of 2018. Barclays U.S. indices show increasing risk premiums:

HY/IG: BB/BBB widened 85bps on quarter

A/BBB: widened 27bps on quarter

The widening of credit spreads has resulted in current yields increasing substantially over the course of 2018 making the carry on the portfolio much more compelling.

Corporate supply was 15% lower than 2017 as Canadian IG corporations issued \$98 billion in 2018 as compared to \$115 billion last year. We were on track for a larger issuance year in 2018 until the massive "risk off" sentiment in Q4. Issuance in the last quarter of the year was extremely limited and December only saw 4 deals print prior to December 3rd when all issuance stopped for the year. As an aside, January has seen very strong issuance as tone has improved vastly in January – with spread tightening substantially – so any issuer who was sidelined in Q4 appears to be coming to market in 2019 instead.

Market event risk has had a greater impact on lower rated and longer dated credit spreads. Credit curves, like interest rate curves, had flattened substantially in 2018 up until Q4. While we saw an underperformance of longer dated maturities in the quarter, we believe credit curves remain too flat

Our PMs continue to defensively position the portfolio with a focus on coupon yield and curve roll down to drive returns. That said, we did take the opportunity to add some risk in Q4 when liquidity premiums rose dramatically and we were able to add exposure at much cheaper levels than seen throughout the year.

Our core portfolio is always exposed to credit spreads and, as such, if spreads widen, the core holdings suffer a mark to market loss. That said, we have been very bearish in 2018 so have kept exposure focused on high quality, short maturity credit and have overlaid the portfolio with protection trades to help insulate against weakening credit spreads.

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While supply could likely weigh on spreads in the New Year, we believe we are nearing the end of credit spread widening, as markets are pricing in a fairly significant recession and we are not convinced they are right. We were starting to see more and more value at year end and cautiously added small amounts of risk. We remain steadfast in our belief that the key to extracting value in corporate bonds is removing interest rates - especially with the flatness of the rates curve and the extremely low outright yield levels (10yrs sub 2%). The yield on our portfolio has risen substantially in 2018 and we are very optimistic about our fund's return prospects in 2019.