

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete audited annual 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 interim 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, tax-advantaged 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 \$0.05 per month per unit.

Prior to April 17, 2017, the Fund achieved its investment objective by obtaining exposure to ECIGIF Trust (the "Underlying Fund") which invests in a broad range of public and private corporate debt securities. The Manager of the Underlying Fund is Arrow Capital Management Inc. (the "Manager"). East Coast Fund Management Inc. (the "Portfolio Advisor"), is the portfolio advisor of the Underlying Fund. On April 17, 2017, the Fund consummated a portfolio acquisition agreement (the "Acquisition Agreement") with the Underlying Fund pursuant to which the Fund purchased all of the Underlying Fund's assets 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.

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, 2017, the Fund's portfolio included a total of 82 [December 31, 2016 – 63] corporate investment grade debt securities held both long and short, the net representing approximately 451.4% [December 31, 2016 – 368.3%] of the net assets of the Fund and Underlying Fund, respectively.

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, 2017, the Fund had \$299.9 million [December 31, 2016 - \$136.3 million] fixed income short positions and a related unrealized gain of \$3.6 million [December 31, 2016 - \$1.5 million unrealized gain] from short sales.

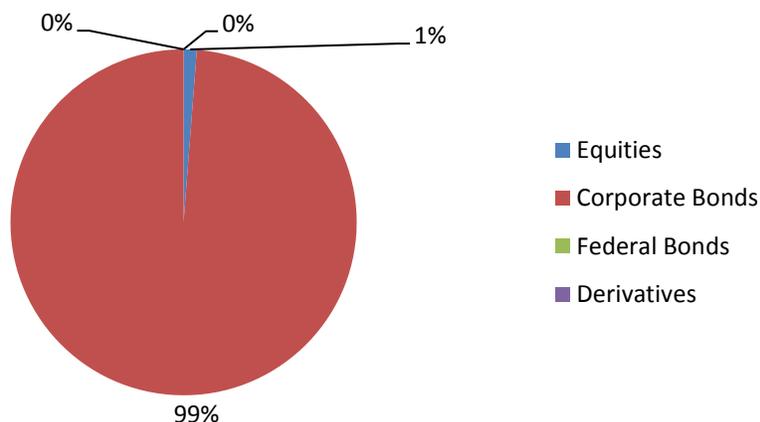
EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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.

Portfolio Sectors



During the year, the Fund generated net realized and unrealized gains of \$1.6 million [December 31, 2016 – \$4.3 million], including net realized and unrealized gains from derivatives of \$(0.6) million [December 31, 2016 - \$1.9 million].

Revenues, Expenses and Distributions

The Fund earned interest income of \$0.60 per unit during the year including interest expense on short sales. Total expenses of the Fund for the year were \$0.29 per unit including security borrowing expenses of \$0.08 per unit. During the year ended December 31, 2017, The Fund declared monthly cash distributions to unitholders through the year at the targeted monthly rate of \$0.05 [December 31, 2016 - \$0.05], which totaled \$0.60 per unit for the year [December 31, 2016 - \$0.60].

Prior to April 17, 2017, through the Forward agreement, the Fund participates in interest income and other revenues earned by ECIGIF Trust and expenses of ECIGIF Trust. ECIGIF Trust earned interest income of \$0.43 per Fund unit during the year ended December 31, 2017 (December 31, 2016 \$0.66). Total combined expenses, of the Fund and ECIGIF Trust for the year ended December 31, 2017 were \$0.37 per Fund unit (December 31, 2016 \$0.45).

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, 2017 was \$84.5 million, up from \$46.1 million at December 31, 2016. During the year, the Net Asset Value per unit increased by \$0.01, from \$9.48 at December 31, 2016 to \$9.49 as at December 31, 2017 [December 31, 2016 - increase of \$0.33 from \$9.15 to \$9.48]. There were distributions to unitholders of \$4.0 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 period, units of the Fund traded at an average premium to their Net Asset Value per unit of 2.7% [December 31, 2016 – discount of (7.3%)]. Investors may also redeem their units in accordance with the Fund's redemption provisions.

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

Redemption

The Fund had redemptions during the year of \$nil [December 31, 2016 - \$5.7 million].

Recent Developments

On April 17, 2017, the Manager settled the Forward Agreement in accordance with the terms of the Forward Agreement. The Fund also consummated a portfolio acquisition agreement (the "Acquisition Agreement") with the Underlying Fund pursuant to which the Fund purchased all of the Underlying Fund's assets 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 Forward Agreement was terminated in response to certain changes to the Income Tax Act (Canada) and in connection with the implementation of certain amendments to the Fund's declaration of trust (the "Declaration of Trust") to, among other things, extend the term of the Fund to May 31, 2022 (the "Extension"). The Extension was approved by the Fund's unitholders at a special meeting on April 12, 2017.

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% 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 changed 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 calculate 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 pay a Performance Fee in respect of any redeemed units of the Fund (the "Interim Performance Fee"). The Interim Performance Fees shall be payable on the applicable redemption date. For any partial fiscal year, including with respect to Interim Performance Fees the hurdle rate will be pro-rated. During the year ended December 31, 2017, the Manager earned \$216,061 in Performance Fees (including performance fees earned by the Underlying Fund (December 31, 2016: \$nil).

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

As at December 31, 2017, included in other liabilities are amounts owing to the Manager relating to management fees of \$89,991 (excluding HST) (December 31, 2016: \$9,749). 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 \$23,356 (December 31, 2016: \$8,814).

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)

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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 years ended December 31,	2017	2016	2015	2014	2013
	\$	\$	\$	\$	\$
Net Assets per unit, beginning of year / period ⁽¹⁾	9.48	9.15	10.30	11.00	11.18
Increase (decrease) from operations:⁽¹⁾					
Total revenue	0.60	-	-	-	-
Total expenses	(0.29)	(0.08)	(0.09)	(0.10)	(0.10)
Realized gains	1.13	0.16	0.23	0.16	0.12
Unrealized gains	(0.87)	0.84	(0.63)	(0.15)	0.41
Total increase (decrease) in Net Assets from operations⁽¹⁾	0.57	0.92	(0.49)	(0.09)	0.43
Distributions to unitholders:⁽¹⁾					
Return of capital	(0.60)	(0.60)	(0.60)	(0.60)	(0.60)
Total distributions to unitholders⁽¹⁾	(0.60)	(0.60)	(0.60)	(0.60)	(0.60)
Net Assets per unit, end of year / period^{(1) (3)}	9.49	9.48	9.15	10.30	11.00

(1) The net assets per unit shown for December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014 and December 31, 2013 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 defined by National Instrument 81-106 ("NI 81-106"), where as 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 years / period ended December 31,	2017	2016	2015	2014	2013
Net Asset Value (in 000s)	\$84,450	\$46,090	\$50,039	\$94,655	\$113,340
Number of units outstanding (in 000s)	8,894	4,862	5,470	9,186	10,302
Management expense ratio ("MER") ⁽¹⁾	2.20%	3.85%	2.20%	2.15%	2.19%
Trading expense ratio ⁽²⁾	0.84%	1.07%	0.72%	0.42%	0.35%
Portfolio turnover rate ⁽³⁾	294.3%	434.36%	175.94%	137.74%	106.2%
Net Asset Value per unit	\$9.49	\$9.48	\$9.15	\$10.30	\$11.00
Closing market price	\$10.06	\$9.50	\$8.45	\$9.95	\$10.66

*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 period, including issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the period.

(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 period.

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

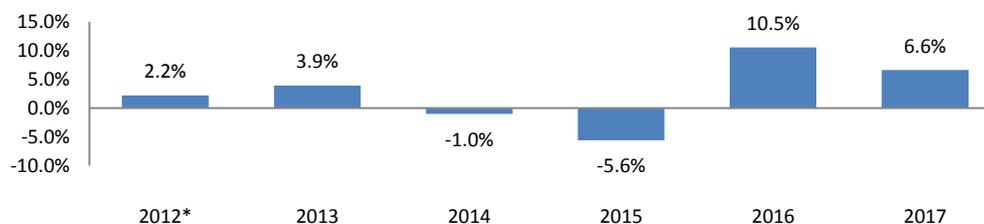
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio 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 period, 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 period.

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 period 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 period since inception. The chart shows, in percentage terms, how an investment held on the first day of the fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



* Represents partial year

The following table shows the Fund's return for the period 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.

Annual Compound Returns

The following table shows the annual compound total returns of the Fund, for the years shown ended December 31, 2017.

	1 Year %	3 Years %	5 Years %	Annualized Since Inception ⁽¹⁾ %
East Coast Investment Grade Income Fund	6.62	3.61	2.71	2.79
FTSE TMX Canada All Corporate Bond Index	2.52	2.56	3.01	3.31

(1) Period from May 18, 2012 (commencement of operations) to December 31, 2017.

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

Summary of Investment Portfolio

Top 25 Holdings		Portfolio Composition	
Security Name	% of Net Asset Value		% of Net Asset Value
Long Positions		Industry Sector	
Royal Bank of Canada 2.89% 11Oct18	32.2	Corporate Bonds	454.1
Bank of Nova Scotia 2.75% 13Aug18	32.0	Federal Bonds	0.0
Canadian Imperial Bank of Commerce, Floating Rate 1.9% 1Jun18	19.6	Equities	5.4
Bank of Montreal 3.21% 13Sep18	19.1	Derivatives	(1.7)
National Bank of Canada 2.79% 9Aug18	17.9	Total Long Positions	457.8
Canadian Imperial Bank of Commerce 1.7% 9Oct18	11.8	Corporate Bonds	(2.7)
Bell Canada, Series 'M-24' (2)4.95% 19May21	11.5	Federal Bonds	(352.4)
Molson Coors International L.P. (2) 2.84% 15Jun23	11.3	Derivatives	(1.6)
Enbridge Inc, Discount Note 04Mar18	11.1	Total Short Positions	(356.7)
Sun Life Financial Inc., Variable Rate (2) 2.6% 25Sep25	9.8		
Bank of America Corp., Variable Rate (2) 2.6% 15Mar23	9.0		
Merrill Lynch & Co. Inc., Variable Rate (2) 2.33% 30May22	8.2		
Ford Credit Canada Co. 2.45% 7May20	8.0		
Nissan Canada Financial Services Inc, Series "D"	7.9		
Total	209.4	Credit Rating	
		AAA	34.5
		BBB	45.4
		Not Rated	20.1
		Total	100.0
Short Positions			
Government of Canada Bond 1.00% 1Jun20	(103.4)		
Government of Canada Bond 0.75% 1Sep20	(53.1)		
Government of Canada Bond 3.50% 1Jun20	(34.0)		
Government of Canada Bond 1.50% 1Mar20	(31.1)		
Government of Canada Bond 1.50% 1Jun 23	(28.0)		
Government of Canada Bond 0.75% 1Mar21	(18.3)		
Government of Canada Bond 3.00% 1Jun21	(13.6)		
Government of Canada Bond 3.75% 1Jun19	(13.3)		
Government of Canada Bond 0.50% 1Mar22	(13.3)		
Government of Canada Bond 0.75% 1Sep21	(10.6)		
Government of Canada Bond 1.75% 1Sep19	(9.8)		
Total Short Positions	(328.5)		
Total	(119.1)		
Total Net Asset Value (in \$millions)	84.5		

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

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

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

2017 was a very complex year as North American interest rates rose and global stock indices gained. Trade negotiations (NAFTA) and the U.S. tax cut dominated the headlines while commodities moved higher as increased expectations of inflation were priced into the market after years of quantitative easing by the world's major central banks.

What Went Well

The Fund benefitted from our highly efficient positioning along the credit curve. We were able to be structurally defensive while maintaining a consistently compelling yield. TRP Hybrids performed phenomenally well in the first half of the year and our positions in both U.S. Financials and U.S. Insurers produced solid gains throughout 2017. An excellent understanding of capital structure on behalf of our Portfolio Managers ensured that we succeeded when trading NVCC preferred shares.

What Did Not Go Well

Insulating our portfolio from downsized risks proved to be expensive this past year but we determined that it was worth it to keep volatility low as we maintained a focus on capital preservation. We missed out on much of the gains in high yield and instead upgraded the quality of our lines.

2017 Key Themes

2017 proved to be a pivotal year for the major central banks as, for the first time in years, global quantitative easing was reduced and North American interest rates were hiked. The Bank of Canada raised rates twice, more than doubling the 2yr yield and boosting the loonie by 5 cents. Canadian economic growth was solid and the unemployment rate reached its lowest point in over 40 years. The Federal Reserve hiked three times as equities surged to all-time highs and the most drastic changes to the tax code since the Reagan era were passed. Chair Yellen, in her final press conference, acknowledged that the one thing not achieved during her tenure was a return of inflation to the FOMC's target level of 2% (core PCE q/q SAAR). Other central banks (ECB and the BoJ) suggested that monetary policy would tighten gradually going forward as all major economies expanded for the first time in a decade. The BoE hiked as well after inflation jumped as a result of the devalued pound with Brexit issues being paramount.

Canadian corporate bond issuance reached a record of \$110 billion in sales in 2017, passing the previous high set in 2013. Hybrids and Maples were incredibly strong as the share of financials within the Canadian corporate debt space fell to 49%, the lowest level since 1999. Maple issuance was led by large U.S. firms including Disney, McDonald's and Apple. TransCanada and Enbridge both issued well-received hybrid notes that could be automatically converted into preferred shares in case of bankruptcy.

2018 Outlook and Expected Positioning

Traditional fixed-income is facing another year of headwinds as the markets expect both the BoC and the Fed to raise rates further in 2018. We positioned the portfolio with these rate increases in mind and we expect to meet our return goals in a higher interest rate environment.

The probability of a smooth return experience in 2018 is not that high. Asset class valuations range from above average to the most expensive they have ever been as we start off the year with:

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2017

- North American equity markets are at all-time highs
- Interest rates are near their low in yield and at the very beginning of a hiking cycle
- High Yield credit spreads are very expensive and at their cycle low in spread

Investment grade credit spreads are at their post-crisis lows and also appear quite expensive, however, they remain a lot cheaper than the levels they traded at pre-crisis. This does not mean that we are predicting a return to the historical lows in spread for investment grade credit but it is very possible that investment grade credit spreads continue to narrow as interest rates rise. Couple this with the fact that the total return generated by the defensively structured short dated bonds that we own would require about a 60 bps widening in credit spreads to negate the income earned and result in a negative performance. In summary we are quite happy to clip our coupon and capture the capital gain roll down on our short dated bonds as they are primarily high quality senior debt that we expect to behave quite well if the market gets skittish at some point this year.