

EAST COAST INVESTMENT GRADE INCOME FUND

MANAGEMENT REPORT OF FUND PERFORMANCE

For the period ended June 30, 2018

Management Report of Fund Performance

This semi-annual management report of fund performance contains financial highlights but does not contain the complete unaudited semi-annual financial statements for East Coast Investment Grade Income Fund (the "Fund"). If you have not received a copy of the unaudited semi-annual financial statements with the management report of fund performance, you may obtain a copy of the unaudited semi-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 semi-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, 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 \$0.04 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 period that materially affected the risks associated with an investment in the units of the Fund.

Results of Operations

Investment Portfolio

As of June 30, 2018, the Fund's portfolio included a total of 98 [December 31, 2017 – 82] corporate investment grade debt securities held both long and short, the net representing approximately 412.9% [December 31, 2017 – 451.4%] 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 June 30, 2018, the Fund had \$382.7 million [December 31, 2017 - \$299.9 million] fixed income short positions and a related unrealized gain of \$2.0 million [December 31, 2017 - \$3.6 million unrealized gain] from short sales.

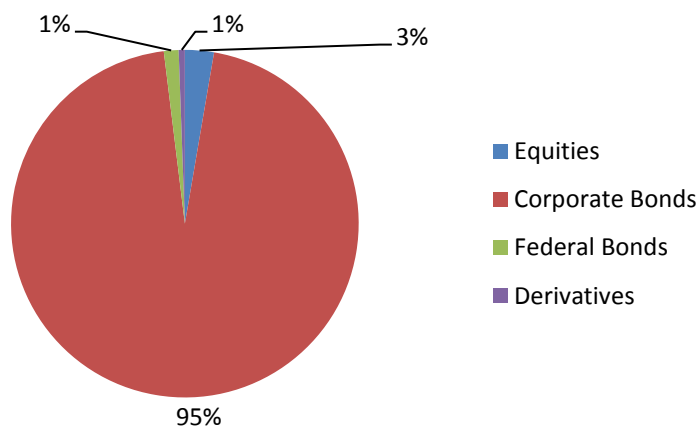
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The breakdown of the portfolio by industry is shown in the accompanying pie chart. A detailed listing of Fund's security holdings is provided in the financial statements.

Portfolio Sectors



During the Period, the Fund generated net realized and unrealized gains of \$0.3 million [December 31, 2017 – \$1.6 million], including net realized and unrealized gains from derivatives of \$(0.4) million [December 31, 2017 - \$(0.6) million].

Revenues, Expenses and Distributions

The Fund earned interest income of \$0.35 per unit during the period including interest expense on short sales. Total expenses of the Fund for the period were \$0.15 per unit including security borrowing expenses of \$0.05 per unit. During the period ended June 30, 2018, The Fund declared monthly cash distributions to unitholders through the period at the targeted monthly rate of \$0.04 [December 31, 2017 - \$0.05], which totaled \$0.24 per unit for the period [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 June 30, 2018 was \$110.6 million, up from \$84.5 million at December 31, 2017. During the period, the Net Asset Value per unit decreased by \$0.05, from \$9.49 at December 31, 2017 to \$9.44 as at June 30, 2018 [December 31, 2017 - increase of \$0.01 from \$9.48 to \$9.49]. There were distributions to unitholders of \$2.5million during the period.

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 2.0% [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 period of \$nil [December 31, 2017 - \$nil million].

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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 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 pay a Performance Fee in respect of any redeemed units of the Fund (the "Semi-annual Performance Fee"). The Semi-annual Performance Fees shall be payable on the applicable redemption date. For any partial fiscal year, including with respect to Semi-annual Performance Fees the hurdle rate will be pro-rated. During the period ended June 30, 2018, the Manager earned \$127,600 in Performance Fees (including performance fees earned by the Underlying Fund (December 31, 2017: \$216,061).

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

As at June 30, 2018, included in other liabilities are amounts owing to the Manager relating to management fees of \$103,384 (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 \$21,504 (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 unaudited semi-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 period ended June 30, 2018 and for the years ended December 31, | 2018 | 2017 | 2016 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ | \$ |
| Net Assets per unit, beginning of year / period ⁽¹⁾ | 9.49 | 9.48 | 9.15 | 10.30 | 11.00 |
| Increase (decrease) from operations⁽¹⁾ | | | | | |
| Total revenue | 0.35 | 0.60 | - | - | - |
| Total expenses | (0.15) | (0.29) | (0.08) | (0.09) | (0.10) |
| Realized gains | 0.05 | 1.13 | 0.16 | 0.23 | 0.16 |
| Unrealized gains | (0.07) | (0.87) | 0.84 | (0.63) | (0.15) |
| Total increase (decrease) in Net Assets from operations⁽¹⁾ | 0.18 | 0.57 | 0.92 | (0.49) | (0.09) |
| Distributions to unitholders:⁽¹⁾ | | | | | |
| Return of capital | (0.24) | (0.60) | (0.60) | (0.60) | (0.60) |
| Total distributions to unitholders⁽¹⁾ | (0.24) | (0.60) | (0.60) | (0.60) | (0.60) |
| Net Assets per unit, end of year / period^{(1) (3)} | 9.44 | 9.49 | 9.48 | 9.15 | 10.30 |

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- (1) The net assets per unit shown for June 30, 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 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 period ended June 30, 2018 and for the years ended | | | | | |
| December 31, | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net Asset Value (in 000s) | \$110,653 | \$84,450 | \$46,090 | \$50,039 | \$94,655 |
| Number of units outstanding (in 000s) | 11,715 | 8,894 | 4,862 | 5,470 | 9,186 |
| Management expense ratio ("MER") ⁽¹⁾ | 1.94%* | 2.20% | 3.85% | 2.20% | 2.15% |
| Trading expense ratio ⁽²⁾ | 1.35%* | 0.84% | 1.07% | 0.72% | 0.42% |
| Portfolio turnover rate ⁽³⁾ | 116.6% | 294.3% | 434.36% | 175.94% | 137.74% |
| Net Asset Value per unit | \$9.44 | \$9.49 | \$9.48 | \$9.15 | \$10.30 |
| Closing market price | \$9.79 | \$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 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.
- (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.

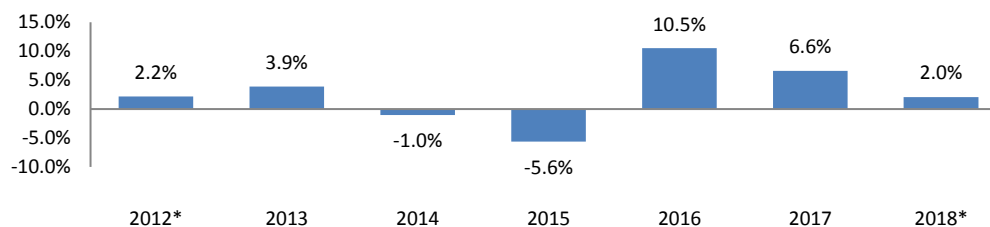
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The bar chart shows the Fund's overall total return for each period since inception. The chart shows, in percentage terms, how an investment held on the first day of the fiscal period would have changed by the last day of the fiscal period.

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 compound total returns of the Fund for the period ended June 30.

| | 1 Year % | 3 Years % | 5 Years % | Annualized Since Inception ⁽¹⁾ % |
|---|-------------|--------------|--------------|---|
| East Coast Investment Grade Income Fund | 4.77 | 4.25 | 2.87 | 2.9 |
| FTSE TMX Canada Universe Bond | 0.76 | 1.97 | 3.48 | 3.14 |

(1) Period from May 18, 2012 (commencement of operations) to June 30, 2018.

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Summary of Investment Portfolio

| Top 25 Holdings | | Portfolio Composition | |
|---|-------------------------|-----------------------|-------------------------|
| Security Name | % of Net Asset Value | | % of Net Asset Value |
| Canadian Imperial Bank of Commerce 1.7% 9Oct18 | 23.90 | Corporate Bonds | 417.7 |
| Bank of Nova Scotia 2.46%14Mar19 | 20.80 | Federal Bonds | 6.0 |
| Royal Bank of Canada 2.77%11Dec18 | 20.00 | Equities | 11.8 |
| Toronto-Dominion Bank (The) 2.45%2Apr19 | 17.60 | Derivatives | 2.5 |
| Merrill Lynch & Co. Inc., Variable Rate 2.66%30May22 | 14.20 | Total Long Positions | 438.0 |
| Bank of Montreal, Variable Rate 3.12%19Sep24 | 11.00 | | |
| Royal Bank of Canada 2.03%15Mar21 | 10.90 | Corporate Bonds | (4.8) |
| Sun Life Financial Inc., Variable Rate 2.6%25Sep25 | 10.60 | Federal Bonds | (341.1) |
| Enbridge Inc. Discount Note 0.0%01Aug18 | 10.40 | Derivatives | (0.6) |
| SmartCentres REIT, Series 'L' 3.75%11Feb21 | 8.90 | Total Short Positions | (346.5) |
| Ford Credit Canada Co., Floating Rate 2.59%21Sep20 | 8.90 | | |
| Wells Fargo Financial Canada Corp. 2.78%15Nov18 | 8.80 | | |
| Canadian Natural Resources Ltd., Series '2' 3.0%14Aug20 | 8.20 | Credit Rating | |
| Wells Fargo Financial Canada Corp. 3.04%15Mar19 | 7.70 | AAA | 42.2 |
| Reliance L.P. 5.19%15Mar19 | 7.50 | AA | - |
| Total | 189.40 | A | - |
| | | BBB | 42.6 |
| Short Positions | | Below BBB | - |
| Government of Canada Bond 1.0% 1Jun27 | (96.80) | Not Rated | 15.2 |
| Government of Canada Bond 0.75% 1Sep20 | (48.60) | Total | 100.0 |
| Government of Canada Bond 0.75% 1Jan21 | (46.50) | | |
| Government of Canada Bond 3.50% 1Jun20 | (31.00) | | |
| Government of Canada Bond 3.75% 1Jun 19 | (23.10) | | |
| Government of Canada Bond 1.75% 1Sep19 | (20.60) | | |
| Government of Canada Bond 1.5% 1Mar20 | (20.00) | | |
| Government of Canada Bond 0.75% 1Sep21 | (15.90) | | |
| Government of Canada Bond 0.50% 1Mar22 | (13.80) | | |
| Government of Canada Bond 3.25% 1Jun21 | (7.40) | | |
| Total Short Positions | (323.70) | | |
| Total | (134.3) | | |
| Total Net Asset Value (in \$millions) | 110.6 | | |

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 period ended June 30, 2018

Results of Operations

Investment grade (IG) spreads have widened 12 bps YTD and are 22 bps weaker from the most expensive (tightest) levels seen in 2018. So far this year there has been over \$64 billion of total corporate supply, which is 16.5% more issuance year over year than 2017, and it has clearly weighed on our market. That said, Canadian IG credit, even with the heaviness of supply, continues to outperform most global credit markets (especially the U.S.) which speaks to the strong relative technicals in Canada.

Interest rate volatility has been the name of the game in 2018, with trade wars, global events (such as Italy's hung parliament) and geopolitical noise seeming to have a greater day-to-day impact than Bank of Canada policy. Ten year GoC bonds started the year at 2.08% and ended June at 2.17% - a seemingly small rise in rates; however, they reached levels as high as 2.52% and as low as 2.06% within the first half of the year.

Market event risk has had a greater impact on lower rated and longer dated credit spreads. Our PMs continue to defensively position the portfolio with a focus on coupon yield and curve roll down to drive returns. Many traditional funds are being forced to reach for returns in high yield/lower rated quality (which doesn't compensate for risk in our view) or longer-term maturities to increase their return prospect. High yield credit has only been more expensive relative to Investment grade credit in the 6 months prior to the Global Financial Crisis. Risk premia has shrunk dramatically as seemingly indiscriminate buying has occurred as investors reach for yield/return opportunities. Traditional funds will be much less nimble if the economy shows signs of slowdown and the credit cycle reverses. Our PMs ability to actively trade the portfolio has proven extremely valuable in these uncertain and volatile markets.

It is extremely difficult for investors to identify where we are in the credit cycle in an attempt to "time" an investment. In January 2018, Canadian IG credit spreads were as expensive as they'd been post Financial Crisis and had rallied 100 bps from the bottom in February 2016. Even at their most expensive credit spread levels in January, unlike High Yield and other, more risky asset classes, IG credit still remained wider than levels typically traded pre-crisis.

The portfolio continues to be defensively positioned, with an average maturity of less than 2 years. The PMs are constantly monitoring risk and positioning to ensure we are optimally positioned at all times. Additionally, our RV trading and portfolio protection strategies continue to add value to our core credit holdings, especially in weak markets.