

# ECIGIF TRUST

## MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2016

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### 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 ECIGIF Trust (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](http://www.arrow-capital.com) or SEDAR at [www.sedar.com](http://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 an investment trust managed by the Manager. East Coast Fund Management Inc. (the "Portfolio Advisor"), is the portfolio advisor for the Portfolio held by the Fund.

### Investment Objectives and Strategies

The Fund's investment objectives are to provide unitholders with attractive 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 Advisor intends to achieve the Fund's investment objectives by implementing four specific portfolio management strategies for managing the portfolio: the Core Credit Portfolio Strategy, the Relative Value Trading Strategy, the Active Credit Trading Strategy and the Macro Systemic Risk Protection Program. A detailed description of the trading strategies is provided in the Fund's prospectus dated April 26, 2012 (the "Prospectus"), which is available on the Fund's website at [www.arrow-capital.com](http://www.arrow-capital.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).

### Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's non-offering Prospectus which is available on the Fund's website at [www.arrow-capital.com](http://www.arrow-capital.com) or on SEDAR at [www.sedar.com](http://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, 2016, the Fund's portfolio included a total of 63 [December 31, 2015 - 87] corporate investment grade debt securities held both long and short, the net representing approximately 368.3% [December 31, 2015 - 345.1%] of the net asset value 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, 2016, the Fund had \$136.3 million [December 31, 2015 - \$142.7] fixed income short positions and a related unrealized gain of \$1.5 million [December 31, 2015 - \$0.3 million unrealized gain] from short sales.

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

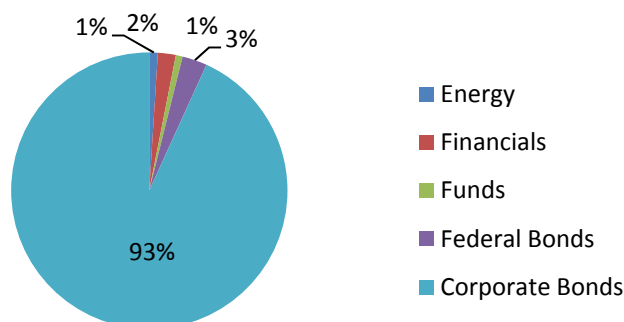
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### Portfolio Sectors



During the year, the Fund's portfolio generated net realized and unrealized gains of \$4.3 million [December 31, 2015 – (\$4.9) million], including net realized and unrealized gains from derivatives of \$1.9 million [December 31, 2015 – (\$3.5) million].

### Revenues, Expenses and Distributions

The Fund earned interest income of \$0.66 per unit during the year [December 31, 2015 - \$0.62] including interest expense on short sales. Total expenses of the Fund for the year were \$0.40 per unit [December 31, 2015 - \$0.22], including security borrowing expenses of \$0.09 per unit [December 31, 2015 - \$0.07]. During the year ended December 31, 2016, the Fund declared distributions to unitholders which totaled \$0.79 per unit [December 31, 2015 - \$0.78].

### Cash Overdraft

The Fund utilizes leverage and trades on margin as a component of its investment strategy. As a result, as at December 31, 2016 the Fund had a cash overdraft balance of \$11.4 million [December 31, 2015 - \$7.6 million] representing cash balances advanced under margin lending agreements with the Fund's brokers, which are payable on demand. Interest is charged on outstanding balances at the contractual rate and amounted to \$52,158 for the year ended December 31, 2016 [December 31, 2015 - \$35,340].

### Net Asset Value

During the year, the Net Asset Value per unit increased by \$0.35 per unit from \$9.95 as at December 31, 2015 to \$10.30 as at December 31, 2016 and included distributions of \$0.79 per unit. The aggregate Net Asset Value of the Fund as at December 31, 2016 was \$46.4 million [December 31, 2015 - \$50.5 million]. There were distributions of \$4.0 million during the year.

### Redemptions

The Fund had redemptions during the year of \$5.8 million [December 31, 2015 \$35.3 million] representing 11.2% [December 31, 2015 40.5%] of total units outstanding at the redemption date.

### Recent Developments

There are no recent developments for the Fund.

### Related Party Transactions

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

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The Manager holds 1 Class A unit of the Fund. No management fees or performance fees are charged on Class A units.

### Management and Performance Fees

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund and for paying the fees of the Portfolio Advisor. The Fund pays management fees equal to 1.0% per annum of the Net Asset Value of the Fund, plus applicable taxes. The management fees from the Fund are used by the Manager to cover its costs for its services in connection with the management of the Fund, the cost of the Portfolio Advisor and for profit.

The Manager is also entitled to receive from the Fund an annual Performance Fee equal to 10% of the increase in the net asset value of the Fund (including any distributions paid on the units of the Fund), subject to an annual hurdle rate of 5.30%.

The Performance Fee will 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 shall pay a Performance Fee in respect of any concurrently 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. As at December 31, 2016, the Manager had earned \$637,281 in Performance Fees [December 31, 2015 - \$nil].

### 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 period, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Assets per Unit	2016	2015	2014	2013	2012 <sup>(3)</sup>
For the years / period ended December 31,	\$	\$	\$	\$	\$
<b>Net Assets per unit, beginning of year / period <sup>(1)</sup></b>	<b>9.95</b>	<b>11.19</b>	<b>11.93</b>	<b>12.13</b>	<b>12.00</b>
<b>Increase (decrease) from operations<sup>(1)</sup></b>					
Total revenue	0.70	0.68	0.76	0.82	0.43
Total expenses	(0.40)	(0.22)	(0.20)	(0.19)	(0.17)
Realized gains (losses)	(0.17)	(0.71)	(0.28)	0.20	0.02
Unrealized gains (losses)	1.00	(0.13)	(0.22)	(0.21)	0.02
<b>Total increase in Net Assets from operations<sup>(1)</sup></b>	<b>1.13</b>	<b>(0.38)</b>	<b>0.06</b>	<b>0.62</b>	<b>0.30</b>
<b>Distributions to unitholders:<sup>(1)</sup></b>					
From net investment income	-	-	(0.03)	(0.63)	(0.37)
Return of capital	(0.79)	(0.78)	(0.77)	(0.19)	-
<b>Total distributions to unitholders<sup>(1)</sup></b>	<b>(0.79)</b>	<b>(0.78)</b>	<b>(0.80)</b>	<b>(0.82)</b>	<b>(0.37)<sup>(2)</sup></b>
<b>Net Assets per unit, end of year / period<sup>(1)</sup></b>	<b>10.30</b>	<b>9.95</b>	<b>11.19</b>	<b>11.93</b>	<b>12.06</b>

- (1) The net assets per unit shown for 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

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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) A year end distribution of \$1,360,424/\$0.13 per unit was reinvested and the units were immediately consolidated so that the number of units outstanding equaled the number of units outstanding immediately prior to the distribution.
- (3) Period from May 18, 2012 (commencement of operations) to December 31, 2012.

Ratios and Supplemental Data (Based on Net Asset Value)					
For the years / period ended December 31,					
	2016	2015	2014	2013	2012 <sup>(4)</sup>
Net Asset Value (in 000's)	\$46,366	\$50,458	\$95,322	\$114,083	\$129,612
Number of units outstanding (in 000's)	4,501	5,071	8,519	9,560	10,750
Management expense ratio ("MER") <sup>(1)</sup>	2.93%	1.34%	1.26%	1.27%	1.26%*
Trading expense ratio <sup>(2)</sup>	1.06%	0.74%	0.42%	0.35%	0.96%*
Portfolio turnover rate <sup>(3)</sup>	434.36%	175.94%	137.74%	106.3%	155.7%
Net Asset Value per unit	\$10.30	\$9.95	\$11.19	\$11.93	\$12.13

\* 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 for the stated period, 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 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 rate 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 for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.
- (4) Period from May 18, 2012 (commencement of operations) to December 31, 2012.

### 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.

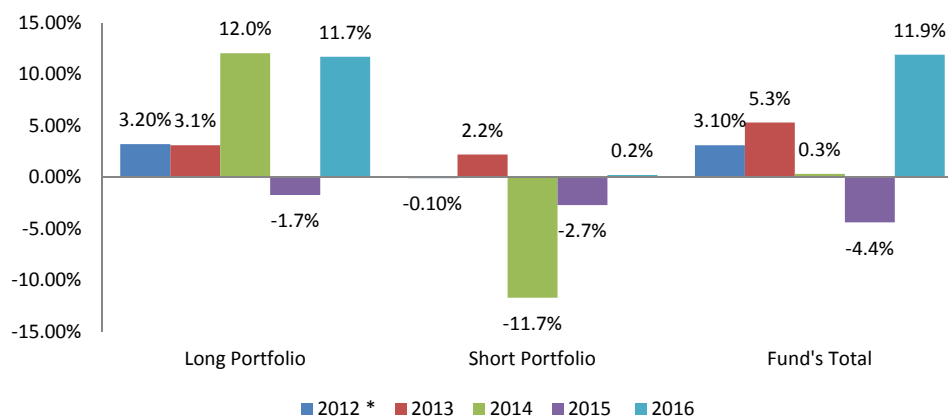
The bar chart shows the Fund's overall total return and the total return for long portfolio positions and short portfolio positions for each period. The chart shows, in percentage terms, how an investment held on the first day of the fiscal period would have changed by the last day of the fiscal period.

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### 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 period shown ended December 31, 2016.

	1 Year %	3 Years %	5 Years %	Annualized Since Inception (1) %
ECIGIF Trust	11.9	2.37	n/a	3.31
FTSE TMX Canada Universe Bond Index	1.66	4.61	3.22	3.48

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

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### Summary of Investment Portfolio

Top 25 Holdings		Portfolio Composition	
Security Name	% of Net Asset Value		% of Net Asset Value
<b>Long Positions</b>		<b>Industry Sector</b>	
JPMorgan Chase & Co. 2.92% 19Sep17	32.8	Corporate Bonds	384.3
Canadian Imperial Bank of Commerce 2.35% 18Sep17	21.8	Federal Bonds	13.0
Aon Finance N.S 1 ULC 4.76% 08Mar18	15.5	Energy	4.1
TransCanada Pipelines Ltd 9.45% 20Mar18	14.8	Financials	8.5
Wells Fargo Canada Corporation 2.94% 25Jul19	12.5	Funds	3.3
Molson Coors International LP 2.25% 18Sep18	11.8	Derivatives	0.2
TD Bank National Association 4.64% 20Sep22	11.7	Total Long Positions	413.4
Manitoba Telecom Services Inc. 5.63% 16Dec19	11.5	Corporate Bonds	(16.0)
Enbridge Inc. 0.00% 10May17	11.1	Federal Bonds	(277.9)
Bell Canada Inc 5.52% 26Feb19	10.9	Derivatives	(0.2)
Reuters Corporation 3.37% 23May19	10.5	Total Short Positions	(294.1)
Shaw Communications Inc 5.65% 01Oct19	10.5		
Metropolitan Life Global Funding Inc 2.68% 16Apr19	10.5	<b>Credit Rating</b>	
Royal Bank of Canada 3.04% 17Jul24	9.8	AAA	5.8
Total Long Positions	195.7	AA	12.0
		A	28.7
		BBB	44.2
<b>Short Positions</b>		Below BBB	2.2
Canadian Government Bond 1.75% 1Mar19	(54.2)	Not Rated	7.1
Canadian Government Bond 3.75% 1Jun19	(34.4)	Total	100.0
Canadian Government Bond 4.25% 1Jun18	(31.2)		
Canadian Government Bond 1.75% 1Sep19	(29.5)		
Canadian Government Bond 1.25% 1Sep18	(23.5)		
Canadian Government Bond 3.50% 1Jun20	(21.7)		
Cash and Cash Equivalents	(19.8)		
Canadian Government Bond 0.75% 1Sep20	(18.4)		
Canadian Government Bond 1.50% 1Sep17	(16.4)		
Canadian Government Bond 4.0% 1Jun17	(11.1)		
The Toronto Dominion Bank 3.23% 24Jul24	(10.7)		
Total Short Positions	(270.9)		
<b>Total</b>	<b>(75.2)</b>		
<b>Total Net Asset Value (in \$millions)</b>	<b>46.4</b>		

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 ECIGIF Trust. ECFMI is responsible for all portfolio advisory and investment management services that are provided to ECIGIF Trust.

### Portfolio Advisor Report

For the 12 months ended December 31<sup>st</sup> 2016, the Fund posted a gain of 11.9% (2015: (4.4%)) while its benchmark, the FTSE TMX Canada Universe Bond Index, gained +1.7% for the same period (2015: 3.52%).

2016 had some significant events that caught the markets off guard (Brexit, U.S. Election...) as well as being a year that finally caught up with long-only fixed income investors once rates began rising across the globe in October. While it has been a strong-performing year for credit, we feel that the year ahead still provides plenty of opportunities for investors.

During the first quarter of the year credit spreads widened dramatically to non-crises wides. Our insight and understanding of the credit markets led us to believe that this was an opportunity, not a sign of an impending market crash. During this time we added to high-quality names and were able to buy senior, investment grade debt at very attractive levels from risk/reward standpoint. This proved to be very profitable and the losses we saw in January were more than made up for by the end of March.

During the year we also began taking advantage of the preferred share market's inability to properly value out of favor legacy shares. Through in depth and thorough analysis we carefully added positions to the portfolio and were able to benefit investors. Our best performing investment in preferred shares was in Enbridge Series U. Early in the year we were buying these at \$15 and they ended the year over \$22.

### 2016 Key Themes

It was a year of surprise that rewarded investors who had both caution and conviction. Oil fell to a low of \$26/bbl yet finished the year around \$53/bbl. The Canadian Dollar performed incredibly well given its international counterparts underperformance as central bank policies diverged from the FOMC's rate hike during the tail end of the year.

For interest rates the big story was twofold, rates began rising (even before the U.S. election so it can't all be blamed on that) and yield curves steepened. The driver of the steepening was a rise in inflation expectations which began rising after investors realized that regardless of who won the election, fiscal stimulus was going to be a big part of the next administration.

Credit spreads started the year at incredibly wide levels and went even wider. They snapped back fairly rapidly so it required more than luck to benefit from this initial movement. The rest of the year saw credit spreads grind tighter as economic outlooks improved and interest rates began to rise.

### Forward-Looking Statements

*Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof, and we assume no obligation to update or revise them to reflect new events or circumstances.*