

# EAST COAST INVESTMENT GRADE INCOME FUND



(Manager, Promoter and Portfolio Trust Manager)



(Portfolio Advisor to the Portfolio Trust)

## **ANNUAL INFORMATION FORM**

**March 29, 2017**

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## FORWARD-LOOKING STATEMENTS

This annual information form (the “**Annual Information Form**”) 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.

In addition, any statement that may be made concerning future performance, strategies or prospects and possible future action by the fund is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, current assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance and actual results or events could differ materially from those expressed or implied in any forward-looking statements made by the fund. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, such as interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. Some of these risks, uncertainties and the other factors are described in this document under the heading “Risk Factors”.

We encourage you to consider these and other factors carefully before making any investment decisions. Forward-looking statements should not be unduly relied upon. While the Fund anticipates that subsequent events and developments may cause its views to change, the Fund specifically disclaims 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 views as of any date subsequent to the date of this Annual Information Form.

## NAME, FORMATION AND HISTORY OF THE FUND

### Formation of the Fund

East Coast Investment Grade Income Fund (the “**Fund**”) is a closed-end investment fund established as a trust under the laws of the Province of Ontario pursuant to a declaration of trust (the “**Declaration of Trust**”) on April 26, 2012 and as amended and restated on September 27, 2013. Arrow Capital Management Inc. (“**Arrow**” or the “**Manager**”) 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, M5C2C5.

The Fund closed its initial public offering on May 18, 2012 with the placement of 11,250,000 units of the Fund (the “**Units**”) to holders of units of the Fund (the “**Unitholders**”) at \$12.00 per Unit for gross proceeds of \$135,000,000. On May 30, 2012, the Fund issued an additional 335,000 Units at \$12.00 per Unit for gross proceeds of \$4,020,000. In total, the Fund issued 11,585,000 Units at a price of \$12.00 per Unit for gross proceeds of \$139,020,000.

Pursuant to the Declaration of Trust, Arrow Capital Management Inc. has been appointed the trustee of the Fund (the “**Trustee**”). The Units trade on the Toronto Stock Exchange (the “**TSX**”) under the symbol ECF.UN. Through a forward agreement between the Fund and The Bank of Nova Scotia (the “**Counterparty**”) dated May 18, 2012 (the “**Forward Agreement**”), the Fund is exposed to a portfolio of securities (the “**Portfolio**”) held by ECIGIF Trust (the “**Portfolio Trust**”). See “The Forward Agreement”. The Counterparty has agreed to pay the Fund on May 15, 2017 (the “**Forward Termination Date**”) the economic return provided by the Portfolio.

### The Portfolio Trust

The Portfolio Trust is an investment fund established as a trust under the laws of the Province of Ontario pursuant to a declaration of trust dated April 26, 2012 (the “**PT Declaration of Trust**”). Arrow Capital Management Inc. is the trustee, manager and promoter of the Portfolio Trust. The principal office of the Portfolio Trust is located at 36 Toronto Street – Suite 750 Toronto, Ontario, M5C2C5. The return to the Unitholders and the Fund is dependent upon the economic performance of the Portfolio Trust and on the Portfolio by virtue of the Forward Agreement. The Portfolio is held by the Portfolio Trust and is actively managed by East Coast Fund Management Inc. (“**East Coast**” or the “**Portfolio Advisor**”).

### The Forward Agreement

The Fund does not and will not hold the Portfolio but, instead, obtains economic exposure to the Portfolio through the Forward Agreement with the Counterparty. The Fund used the net proceeds of its initial public offering as well as the net proceeds of its subsequent offerings for the pre-payment of its purchase obligations under the Forward Agreement with the Counterparty. The Fund may also directly hold a small number of the same securities as are held in the Portfolio.

Pursuant to the terms of the Forward Agreement, the Counterparty will deliver to the Fund, on or about the Forward Termination Date, a specified portfolio (the “**Canadian Securities Portfolio**”) of common shares of Canadian public companies that are “Canadian securities” as defined in subsection 39(6) of the *Income Tax Act* (Canada) (the “**Tax Act**”) with an aggregate value equal to the net asset value (“**NAV**”) of the Portfolio Trust on such date. Under the terms of the Forward Agreement, the Fund and the Counterparty have agreed that the Counterparty’s settlement obligations under the Forward Agreement will be discharged by physical delivery of the Canadian Securities Portfolio by the Counterparty to the Fund.

The Fund may settle the Forward Agreement in whole or in part prior to the Forward Termination Date on two days’ notice with settlement to occur three days later: (i) to fund monthly distributions on the Units; (ii) to fund redemptions of Units from time to time; (iii) to fund operating expenses and other liabilities of the Fund; (iv) in the event the Counterparty’s credit rating is downgraded; and (v) for any other reason.

Pursuant to the terms of the Forward Agreement, the Counterparty will, in connection with a requested partial settlement, deliver Canadian Securities Portfolio securities to the Fund with an aggregate value based on the partial settlement amount. The Fund will then sell such securities into the market in order to fund the monthly distribution, redemption or operating expenses and other liabilities of the Fund. It is intended that any capital gain or income realized by the Fund on the subsequent sale of such securities to fund redemptions will generally be allocated to the redeeming Unitholders.

The Forward Agreement may be terminated prior to the Forward Termination Date in certain circumstances, including if an event of default or a termination event occurs with respect to the Fund or the Counterparty under the Forward Agreement.

The following constitute events of default under the Forward Agreement: (i) failure by a party to make a payment or perform an obligation when required under the Forward Agreement, which is not cured within any applicable grace period; (ii) a party makes a representation which is incorrect or misleading in any material respect; (iii) a party defaults in respect of a specified transaction having a value in excess of a specified threshold, which default is not cured within any applicable grace period; (iv) certain events related to the bankruptcy or insolvency of a party; and (v) a party consolidates, amalgamates or merges with or into, or transfers substantially all its assets to, another entity and the resulting, surviving or transferee entity fails to assume the obligations of such party under the Forward Agreement.

Termination events under the Forward Agreement include the following: (i) it becomes unlawful for a party to perform its obligations under, or comply with any material provisions of, the Forward Agreement; (ii) certain tax events occur which require a party to indemnify the other party in respect of certain taxes or reduce the amount that a party would otherwise have been entitled to receive under the Forward Agreement; (iii) failure of the Fund to comply with its governing documents; or (iv) certain regulatory, credit or legal events occur which affect a party.

If the Forward Agreement is terminated prior to the Forward Termination Date for any reason, the Forward Agreement will be settled by physical delivery of the Canadian Securities Portfolio by the Counterparty to the Fund after payment of any amounts owing to the Counterparty. In such event, the Manager may, in its discretion, enter into one or more replacement forward agreements on terms satisfactory to the Manager, in its sole discretion, or the Manager may terminate the Fund and may take such other action as it considers necessary under the circumstances.

On December 12, 2013, certain measures were enacted into law (the “**Character Conversion Rules**”) that would affect the tax consequences to unitholders of investment funds, such as the Fund, that utilize forward purchase and sale agreements (such as the Forward Agreement) to obtain exposure to an underlying reference portfolio. As a result of certain grandfathering rules (the “**Grandfathering Rules**”), the Character Conversion Rules should not apply to the Forward Agreement provided that it is settled prior to May 15, 2017. Provided that the Grandfathering Rules apply to the Forward Agreement, no amount will be included in computing the Fund’s income as a result of the acquisition of Canadian Securities Portfolio securities under the Forward Agreement when the Forward Agreement is settled on or about May 15, 2017. The cost to the Fund of such Canadian Securities Portfolio securities will be that portion of the aggregate amount paid by the Fund under the Forward Agreement attributable to such securities and any other costs of acquisition. Because the Fund has elected in accordance with the Tax Act to have each of its Canadian securities treated as capital property, gains or losses realized by the Fund on the sale of Canadian Securities Portfolio securities acquired under the Forward Agreement will be taxed as capital gains or capital losses.

The Fund is fully exposed to the credit risk associated with the Counterparty. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty will pledge collateral in favour of the Fund with an aggregate value equal to 100% of the mark-to-market value of the Fund’s exposure under the Forward Agreement and the amount of the collateral will be reset on a weekly basis to 100%. The collateral will be placed in a separate securities account and will be free and clear of all liens and adverse claims, other than those in favour of the Fund, and the Fund will have a first ranking security interest in such collateral. Initially, the collateral will consist of securities listed on the TSX, with no more than 10% of the value of the collateral being attributable to the securities of any one issuer. The Counterparty may substitute other forms of collateral with the consent of the Fund. In the

event of default by the Counterparty under the Forward Agreement, the Fund will have the ability to enforce its security interest and take possession of the collateral. Upon entering into the Forward Agreement, the long term debt of the Counterparty or any guarantor must have a long-term debt rating of at least “A” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., or have an equivalent rating from Dominion Bond Rating Service Limited or other “approved credit rating organization” as defined in National Instrument 81-102 – *Investment Funds* (“NI 81-102”).

### **Major Events – Regulatory Change**

Effective September 22, 2014, the Fund shall comply with the requirements of NI 81-102 that are applicable to it as a “non-redeemable investment fund”, subject to any exemptions therefrom applicable to the Fund, if any. Accordingly, the terms of the Declaration of Trust and other agreements entered into prior to September 2014, should be considered in conjunction with NI 81-102.

## **INVESTMENT OBJECTIVES**

### **Status of the Fund**

The Fund is a “non-redeemable investment fund” under applicable Canadian securities legislation but is not a “mutual fund” under applicable Canadian securities legislation. Consequently, effective September 22, 2014, the Fund is subject to certain provisions that apply to “non-redeemable investment fund” under NI 81-102, but not the provisions of NI 81-102 that apply only to “mutual funds” or other policies and regulations that apply to publicly offered “mutual funds”, notably National Instrument 81-101—*Mutual Fund Prospectus Disclosure*. The Fund is also subject to certain other requirements and restrictions contained in applicable securities laws, including National Instrument 81-106 - *Investment Fund Continuous Disclosure* (“NI 81-106”), which governs the continuous disclosure obligations of investment funds, such as the Fund.

### **Investment Objectives**

The Fund was created to achieve the following investment objectives: (i) to maximize total returns to the holders of Units (the “Unitholders”) while reducing risk; and (ii) to provide Unitholders with attractive monthly tax-advantaged cash distributions. The Fund’s investment objectives may not be changed without approval by resolution passed by at least 66 <sup>2</sup>/<sub>3</sub>% 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, unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by the applicable regulatory authorities from time to time.

The Fund seeks to achieve these investment objectives by obtaining exposure to the Portfolio that is 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 its macro systemic risk protection program.

## **INVESTMENT RESTRICTIONS**

### **Investment Restrictions of the Fund and the Declaration of Trust**

In addition to the investment restrictions set out in NI 81-102 that are applicable to the Fund, which are designed to ensure that the investments of the Fund are diversified and relatively liquid and to ensure the proper administration of the Fund, the Fund is subject to certain investment restrictions that, among other things, limit the securities that the Fund may acquire in the Canadian Securities Portfolio. The Fund’s investment restrictions may not be changed without approval by resolution passed by at least 66 <sup>2</sup>/<sub>3</sub>% 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, unless such changes are necessary to

ensure compliance with applicable laws, regulations or other requirements imposed by the applicable regulatory authorities from time to time. The Fund's investment restrictions provide that the Fund may:

- (a) invest only in equity securities consisting of common shares of Canadian public companies that are "Canadian securities" for the purposes of the Tax Act;
- (b) not purchase securities other than through normal market facilities unless the purchase price therefor approximates the prevailing market price or is negotiated or established on an arm's length basis;
- (c) not purchase securities of an issuer if, as a result of such purchase, the Fund would be required to make a takeover bid that is a "formal bid" for the purposes of the Securities Act (Ontario) or the equivalent provision of applicable securities laws of any other jurisdiction;
- (d) not purchase, in connection with the Canadian Securities Portfolio, securities of an issuer that would represent more than 10% of the NAV of the Fund at the time of purchase;
- (e) not borrow money (other than as described in the prospectus) or guarantee the obligations of any person other than the Manager, and then only in respect of the activities of the Fund;
- (f) not 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;
- (g) not make or hold any investments 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;
- (h) not make or hold any investment that would be "taxable Canadian property" of the Fund (as such term is defined in the Tax Act (if the definition were read without reference to paragraph (b) thereof)) or an investment in "specified property" (within the meaning of the proposed amendment to subsection 132(4) of the Tax Act or amendments to such proposals, provisions as enacted into law or successor provisions thereto) if it would result in the Fund owning specified properties having a fair market value greater than 10% of the fair market value of all of its property;
- (i) not 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; and
- (j) not engage in securities lending that does not constitute a "securities lending arrangement" for the purposes of the Tax Act.

#### **Investment Restrictions of the Portfolio Trust**

The Portfolio Trust was established for the purpose of acquiring and holding the Portfolio. The beneficial owner of all of the units of the Portfolio Trust is the Counterparty or an affiliate of the Counterparty.

In addition to the investment restrictions set out in NI 81-102 to which the Portfolio Trust must act in accordance with, the investment activities of the Portfolio Trust are to be conducted in accordance with, among other things, the following investment restrictions which provide that the Portfolio Trust will 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 Portfolio Trust;
- (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 Portfolio Trust's long security positions, excluding

cash and cash equivalents, minus the absolute value of the Portfolio Trust's short positions, divided by NAV of the Portfolio Trust;

- (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 Portfolio Trust's short security positions, excluding negative cash balances, minus the value of the Portfolio Trust'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 Portfolio Trust;
- (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 Portfolio Trust's own issue, purchase securities from, sell securities to, or otherwise contract for the acquisition or disposition of securities with the Manager, the Portfolio Trust Manager (as defined herein) or the Portfolio Advisor or any of their affiliates, any officer, director or shareholder of the Manager, the Portfolio Trust Manager or the Portfolio Advisor, any person, trust, firm or corporation managed by the Manager, the Portfolio Trust Manager, the Portfolio Advisor or any of their affiliates or any firm or corporation in which any officer, director or shareholder of the Manager, the Portfolio Trust 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 independent review committee ("IRC");
- (i) own securities of an issuer if as a result of such ownership the Manager, the Portfolio Trust 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 Portfolio Trust, have a total fair market value that is greater than 50% of the fair market value of all of the issued and outstanding units of the Portfolio Trust;
- (k) acquire more than 10% of the securities of any one particular issue of an issuer;
- (l) invest in "Canadian real, immovable 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 of the Portfolio Trust;

- (m) invest in any property that is used by the Portfolio Trust in the course of carrying on a business in Canada;
- (n) purchase the securities of an issuer incorporated or otherwise created under the laws of Canada or a province or territory thereof (a) representing more than 10% of (i) the votes attached to the outstanding voting securities of that issuer, or (ii) the outstanding equity securities of that issuer; or (b) for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Portfolio Trust would be required to make a take-over bid that is a “formal bid” for the purposes of applicable securities laws;
- (o) 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: (a) representing more than 5% of (i) the votes attached to the outstanding voting securities of that issuer; or (ii) the outstanding equity securities of that issuer; or (b) for the purposes of exercising control over management of that issuer or if, as a result of such purchase, the Portfolio Trust would be required to make a take-over bid that is a “formal bid” for the purposes of applicable securities laws;
- (p) make or hold any securities in any non-resident trusts, other than “exempt foreign trusts” as defined in proposed subsection 94(1) of the Tax Act as set forth in draft legislation released on August 27, 2010 (or pursuant to any amendments to such proposals, subsequent provisions enacted into law, or successor provisions thereto);
- (q) make or maintain any direct or indirect investment that would result in the Portfolio Trust being a “tax shelter investment” for the purposes of section 143.2 of the Tax Act;
- (r) invest in an offshore investment fund property such that the Portfolio Trust would be required to include any material amounts in income under section 94.1 of the Tax Act as modified by draft legislation released on August 27, 2010 (including any amendments to such provision as enacted into law and any successor provisions thereto);
- (s) acquire any interest in a trust (or a partnership which holds such an interest) which would require the Portfolio Trust (or the partnership) to report income in connection with such interest pursuant to the rules in proposed section 94.2 of the Tax Act, as set forth in the proposed amendments to the Tax Act dated August 27, 2010 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto); or
- (t) make or hold any investments in entities that would be “foreign affiliates” of the Portfolio Trust for purposes of the Tax Act.

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

### **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”).

During the year ended December 31, 2016 the Fund did not deviate from the rules under the Tax Act that apply to the status of the Units as qualified investments within the meaning of the Tax Act for Registered Plans.

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 proposals announced in the Canadian federal budget on March 22, 2017, the foregoing prohibited investment rules are proposed to also be extended to registered disability savings plans and registered education savings plans. **Prospective unitholders who intend to hold Units in a Registered Plan should consult their own tax advisors regarding their particular circumstances.**

## DESCRIPTION OF THE SECURITIES OFFERED BY THE FUND

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 holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units. Each Unitholder is entitled to one vote for each Unit held and 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.

On December 16, 2004, the *Trust Beneficiaries’ Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises: (i) the trust is a reporting issuer under the *Securities Act* (Ontario); and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Declaration of Trust.

### Distributions

The Declaration of Trust provides that the Fund will make monthly distributions to Unitholders at the discretion of the Trustee, upon the advice of the Manager. The Fund has made all its scheduled monthly distributions during the year ended December 31, 2016 paying \$0.05 per Unit. It is expected that monthly distributions received by Unitholders will consist primarily of returns of capital (which are not immediately taxable, but which reduce the adjusted cost base of a Unitholder’s Unit). See “Income Tax Considerations”.

### Matters Requiring Unitholder Approval

Amendments to the terms of the Units must be approved by Unitholders of the Fund in accordance with applicable laws and the Declaration of Trust. In addition to the voting rights provided in NI 81-102 and 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 <sup>2</sup>/<sub>3</sub>% 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) a 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 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 Securities Offered by the Fund – 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;
- (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 Securities Offered by the Fund – Termination of the Fund”; or
- (j) after the Closing and the issuance of Units on the exercise of any Over-Allotment Option in connection therewith, 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 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 Securities Offered by 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 which require the approval of Unitholders by an Extraordinary Resolution or changes described above which 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 has a termination date of on or about May 18, 2017 (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 and the Forward Termination Date, the Manager may present a proposal to extend the term of the Fund for a further five year period and cause the Fund to enter into a new forward agreement, 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.

In the event the Forward Agreement terminates prior to the termination of the Fund, the Fund may enter into a new forward agreement or amend the Declaration of Trust to permit the Fund to hold the securities that comprise the Portfolio directly. Although these actions do not require Unitholder approval, the Fund will provide at least 30 days’ notice to Unitholders of any such action by way of press release.

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 Fund will pre-settle the Forward Agreement (or any subsequent forward agreement entered into by the Fund, if applicable), liquidate the Canadian Securities 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 Manager may also terminate the Fund in the event of an early termination of the Forward Agreement (or any subsequent forward agreement entered into by the Fund, if applicable), provided that the Manager has given Unitholders notice of such termination at least 60 days in advance of such early termination.

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.

## **CALCULATION OF NET ASSET VALUE**

### **Calculation of Net Asset Value**

The NAV of the Fund as well as the NAV per Unit are calculated as of 4:00 p.m. (Toronto time) every business day or such other time as the Valuation Agent (as defined herein) deems appropriate (each, a "**Valuation Date**"). See "Valuation of Portfolio Securities" regarding the valuation policies and procedures of the Fund.

### **Reporting of Net Asset Value**

The most recently calculated NAV of the Fund and the NAV per Unit will be available at no cost to the public upon request and the NAV per Unit will be posted weekly at [www.arrow-capital.com](http://www.arrow-capital.com). The Fund's NAV and NAV per Unit will be reported in Canadian dollars.

## **VALUATION OF PORTFOLIO SECURITIES**

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 the 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 (as defined herein) 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 the Forward Agreement and any other 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 Agreement or any other 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 or the Manager 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 and, if there is an appropriate industry practice, in a manner consistent with such industry practice for valuing such investment. The Fund has not deviated from its valuation policies since inception.

The NAV per Unit is 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.

The Manager 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.

## **PURCHASES OF FUND UNITS**

All of the currently issued and outstanding Units were issued in connection with the initial public offering of Units of the Fund on May 18, 2012 and the additional offering of Units of the Fund on May 30, 2012. In addition, Units may be issued from time to time in the Manager's discretion, subject to the terms of the Declaration of Trust; Units may not be issued for net proceeds per Unit less than the most recently calculated NAV per Unit prior to the date of the setting of the subscription price by the Fund.

The Units are listed on the TSX under the symbol ECF.UN. Registration of interests in and transfers of Units are made only through the book-entry only system administered by CDS Clearing and Depository Service Inc. ("CDS"). Units must be purchased, converted, transferred and surrendered for redemption through a broker, dealer, bank other

financial institution or other person for whom, from time to time, CDS effects book entries for the book-entry only Units deposited with CDS (a “**CDS Participant**”). All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, Unitholders will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

The Fund has the option to terminate registration of the Units through the book-entry only system administered by CDS, in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

### **Purchases 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.

## **REDEMPTION OF SECURITIES**

### **Annual Redemptions**

Units may be surrendered annually for redemption during the period from September 15th until 5:00 p.m. (Toronto time) on the 10<sup>th</sup> business day in October 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 October 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, if any, including costs related to the partial settlement of the Forward Agreement.

### **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 October (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 are entitled to receive a redemption price per Unit (the “**Monthly Redemption Price**”) 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, including costs related to the partial settlements of the Forward Agreement. 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.

“**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; and

“**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.

### **Exercise of Redemption Rights**

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he, she or it holds his, her or its Units to deliver to CDS at its office in the City of Toronto on behalf of the holder, a written notice of the Unitholder’s intention to redeem Units by no later than 5:00 p.m. (Toronto time) on the applicable notice date described above. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his, her or its intention to exercise his, her or its redemption right sufficiently in advance of the deadline so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. (Toronto time) on the notice date described above.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder’s intention to redeem Units, the Unitholder will be deemed to have irrevocably surrendered his, her or its Units for redemption and appointed such CDS Participant to act as his, her or its exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise, provided that the Manager may from time to time permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, provided that such withdrawal will not adversely affect the Fund. Any expense associated with the preparation and delivery of the redemption notice will be for the account of the Unitholder exercising the redemption privilege.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed will, for all purposes, be void and of no effect and the redemption privilege to which it relates will be considered, for all purposes, not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder’s instructions will not give rise to any obligations or liability on the part of the Fund or the Manager to the CDS Participant or the Unitholder.

The Manager may, without the approval of Unitholders, change the redemption rights attached to the Units on not less than 30 days’ notice to Unitholders by increasing the number of times in each year that Units may be redeemed by Unitholders (at a redemption price per Unit to be determined by the Manager), so long as such change does not result in the Fund being a mutual fund for securities law purposes and provided that no such change may be made without Unitholder approval if it would eliminate the rights of Unitholders to redeem their Units on a Monthly Redemption Date.

### **Pre-settling the Forward Agreement**

The Fund may settle the Forward Agreement in whole or in part prior to the Forward Termination Date in order to (i) fund monthly distributions on the Units; (ii) fund redemptions and repurchases of Units from time to time; (iii) fund operating expenses and other liabilities of the Fund; and (iv) for any other reason. The value of the Forward Agreement on an Annual Redemption Date and a Monthly Redemption Date and, accordingly, the NAV per Unit on an Annual Redemption Date and a Monthly Redemption Date and the redemption price will be dependent upon the performance of the Trust and the NAV of the Trust units.

### **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.

## RESPONSIBILITY OF FUND OPERATIONS

### The Manager of the Fund

The Fund has retained Arrow to perform the management functions of the Fund. Arrow was founded in 1999 by James McGovern. The principal office and contact information of Arrow is as follows:

36 Toronto Street - Suite 750  
 Toronto, Ontario  
 M5C 2C5.

Tel: 1-877-327-6048  
 Fax: (416) 323-3199  
 E-mail: [info@arrow-capital.com](mailto:info@arrow-capital.com)  
 Website: <http://www.arrow-capital.com>

Arrow is entitled to receive fees as compensation for its services in connection with the management of the Fund. See “Responsibility of Fund Operations – Duties and Services to be Provided by the Manager” and “Fees and Expenses – Fees and Expenses of the Fund – Management Fee”.

### *Officers and Directors of the Manager*

The following table sets forth the name, municipality of residence, position with the Fund, and principal occupation of each of the directors, managing directors, officers and principals of Arrow.

Name and Municipality of Residence	Position with Arrow	Principal Occupation
James McGovern Toronto, Ontario	Director, Chairman, Managing Director and Chief Executive Officer	Managing Director and Chief Executive Officer of Arrow
Mark Purdy Ajax, Ontario	Director, Managing Director and Chief Investment Officer	Managing Director and Chief Investment Officer of Arrow
Frederick Dalley Toronto, Ontario	Director and Managing Director, Portfolio Management	Managing Director, Portfolio Management of Arrow
Robert Maxwell Toronto, Ontario	Director, Corporate Secretary, Managing Director, Chief Financial Officer	Managing Director, Chief Financial Officer of Arrow
Robert Parsons Toronto, Ontario	Managing Director and Chief Operating Officer	Managing Director, Chief Operating Officer of Arrow

Name and Municipality of Residence	Position with Arrow	Principal Occupation
Mark Kennedy Toronto, Ontario	Chief Compliance Officer	Various positions at Arrow, and currently the Chief Compliance Officer of Arrow

Each of the foregoing has held his current position or has held a similar position with Arrow during the five years preceding the date hereof.

*Duties and Services to be Provided by the Manager*

Pursuant to the Declaration of Trust and the management agreement (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.

*Details of the Management Agreement*

The Manager will continue as manager until the termination of the Fund unless: (i) the Manager resigns by written notice to the Fund; (ii) the Manager is removed by written notice given by the Fund following the occurrence of certain specified events of default (as described below); or (iii) the Manager is removed by written notice given by the Fund following an Extraordinary Resolution of the Unitholders directing the Fund to remove the Manager as manager of the Fund. The following comprise an event of default under the Management Agreement: (i) the bankruptcy or insolvency of the Manager, or if the Manager either voluntarily or under an order of a court of competent jurisdiction makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency; (ii) the Manager’s wilful misconduct, bad faith, negligence or breach of its standard of care owed under the Management Agreement, which in the case of negligence which is capable of being cured, is not cured within 30 days following written notice to the Manager from the Fund specifying in reasonable detail the nature of such negligence; or (iii) the Manager no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations thereunder and is unable to obtain them within a reasonable period after their loss. There is no termination of the Manager for breach of its obligations under the Management Agreement unless such breach constitutes a breach of the standard of care owed by the Manager.

The Management Agreement contains indemnification provisions whereby the Fund indemnifies the Manager against any loss, expense, damage or injury suffered in the scope of its authority under the Management Agreement, provided the same does not result from wilful misconduct, bad faith, negligence or breach of its standard of care owed under the Management Agreement. In addition, under the Management Agreement, the Manager indemnifies the Fund against any loss, expense, damage or injury suffered as a result of the Manager’s wilful misconduct, bad faith, negligence or breach of its standard of care owed under the Management Agreement.

For its services, the Manager will be paid the Management Fee described under “Fees and Expenses – Fees and Expenses of the Fund – Management Fee” and “Fees and Expenses - Fees and Expenses of the Fund – Operating Expenses”. Pursuant to the terms of the Management Agreement, the Manager will bear all costs and expenses

incurred by the Manager in connection with all salaries, employee expenses, office rent and equipment, and other expenses customarily considered to be overhead expenses.

### **The Trustee**

The Manager is the trustee of the Fund under the Declaration of Trust, and is responsible for managing all of the Fund's activities. The address of the Manager where it principally provides services to the Fund is 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5. See "Responsibility of Fund Operations – The Manager of the Fund" for more information on the Manager and the directors and officers of the Manager.

Pursuant to the Declaration of Trust, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Unitholders and to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances. The Declaration of Trust provides that the Manager will not be liable in carrying out its duties under the Declaration of Trust except in cases of wilful misconduct, bad faith, negligence or the disregard of its obligations or duties or breach of its standard of care and duty. The Manager and each of its directors, officers and employees will be indemnified by the Fund for all liabilities and expenses reasonably incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against the Manager or any of its officers, directors, employees, shareholders or agents in the exercise of its duties under the Declaration of Trust, except those resulting from such person's wilful misconduct, bad faith, negligence, disregard of such person's obligations or duties or breach of their standard of care in relation to the matter in respect of which indemnification is claimed.

Unless the Manager resigns or is removed as described below, the Manager will continue as trustee until the termination of the Fund. The Manager or any successor trustee may resign upon 60 days' written notice to Unitholders, and the Manager is deemed to have resigned in certain circumstances, including if the Manager becomes bankrupt or insolvent or in the event the Manager ceases to be resident in Canada for the purposes of the Tax Act. The Manager may not be removed other than by an Extraordinary Resolution of the Unitholders in the event the Manager is in material breach or default of the provisions of the Declaration of Trust and, if capable of being cured, such breach or default had not been cured within 20 business days' notice of such breach or default. Any such resignation or removal shall become effective only upon the appointment of a successor trustee. If the Manager resigns or is removed by Unitholders, its successor must be approved by Unitholders. If, after the resignation or removal of the Manager, no successor has been appointed within 90 days, the Manager or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor trustee. If a successor trustee is not appointed, the Fund shall be terminated.

The services to be provided by the Manager under the Declaration of Trust are not exclusive to the Fund and nothing in the Declaration of Trust prevents the Manager from providing similar management services to other investment funds and other clients (whether or not their activities are similar to those of the Fund) or from engaging in other activities.

### **The Custodian**

The custodian of the assets of the Fund is CIBC Mellon Trust Company, (the "**Custodian**"), 320 Bay Street, P.O. Box 1, Toronto, Ontario M5H 4A6, pursuant to a mater custodial services agreement dated June 27, 2014, as amended, and as amended on March 23, 2015 to add the Fund (the "**Custodian Agreement**"). The Custodian is, among other things, in the business of providing professional custodial services. The Custodian may employ sub-custodians as considered appropriate in the circumstances. Pursuant to the Custodian Agreement the Custodian will provide safekeeping and custodian services in respect of the assets of the Fund.

The Fund will pay the Custodian customary custodianship fees for its services. The Custodian Agreement may be terminated by other party on 30 days' notice, and immediately by either party on written notice if either party declared bankruptcy or becomes insolvent, the assets or the business of either party becomes liable to seizure or confiscation by any public government authority, the Manager's powers and authority to act on behalf of or in respect of the Fund has been revoked or terminated.

## **Auditor**

The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered 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 Equity Financial 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.

## **Securities Lending Agent**

The Bank of New York Mellon, a New York State chartered bank, is the securities lending agent (the “**Securities Lending Agent**”) for the Fund. The Securities Lending Agent is independent of the Manager. The Manager (and the Portfolio Trust Manager) has appointed the Securities Lending Agent, under the terms of a written agreement (the “**Securities Lending Agreement**”) between the Manager (and the Portfolio Trust Manager) and the Securities Lending Agent, on behalf of the Fund (and Portfolio Trust), in order to administer any securities lending, repurchase and reverse repurchase transactions for the Fund (and the Portfolio Trust). See “Securities Lending, Repurchase or Reverse Repurchase Transactions” on page 26 for additional information regarding the Securities Lending Agent and securities lending practices of the Fund (and Portfolio Trust).

Pursuant to the Securities Lending Agreement, the Fund (and Portfolio Trust) will indemnify the Securities Lending Agent, and the Securities Lending Agent and affiliates will indemnify the Fund (and Portfolio Trust), from all claims, losses, damages, liabilities, costs and expenses (including reasonable counsel fees and expenses but excluding consequential or indirect damages), suffered by any party arising from: (i) the failure of the indemnifying party to perform any of its obligations under the Securities Lending Agreement, (ii) any inaccuracy of any representation or warranty made by the indemnifying party in the Securities Lending Agreement, or (iii) any fraud, bad faith, wilful misconduct, gross negligence or reckless disregard of duties by the indemnifying party, in connection with or relating to the Securities Lending Agreement. The Securities Lending Agreement may be terminated at any time at the option of either party upon 30 days’ prior written notice to the other party.

## **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 will be 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.

## **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 other than amounts paid to the Manager as described under “Fees and Expenses”.

# **RESPONSIBILITY OF PORTFOLIO TRUST OPERATIONS**

## **The Manager of the Portfolio Trust**

The Portfolio Trust has retained Arrow to perform the management functions of the Portfolio Trust. See “Responsibility of Fund Operations – The Manager of the Fund” for more information regarding Arrow. Arrow will act as trustee, manager and promoter of the Portfolio Trust and will provide, or arrange to provide, all administrative services required by the Portfolio Trust. The principal office of Arrow is 36 Toronto Street, Suite 750, Toronto,

Ontario, M5C 2C5. Arrow will be entitled to receive fees as compensation for its services in connection with the management of the Portfolio Trust. See “Responsibility of Portfolio Trust Operation – Duties and Services to be Provided by the Portfolio Trust Manager” and “Fees and Expenses – Fees and Expenses of the Portfolio Trust – Portfolio Trust Management Fee”.

#### *Officers and Directors of the Portfolio Trust Manager*

Arrow is the Manager of the Fund and the manager of the Portfolio Trust (the “**Portfolio Trust Manager**”). As such, the officers and directors of the Manager are the same as the officers and directors of the Portfolio Trust Manager. See “Responsibility of Fund Operations – The Manager of the Fund – Officers and Directors of the Manager” for more information regarding the officers and directors of the Portfolio Trust Manager.

#### *Duties and Services to be Provided by the Portfolio Trust Manager*

Pursuant to the PT Declaration of Trust and the Portfolio Trust management agreement (the “**PT Management Agreement**”), which is incorporated into the PT Declaration of Trust while Arrow is both trustee and manager of the Portfolio Trust, the Portfolio Trust Manager has been appointed as the manager of the affairs of the Portfolio Trust. The Portfolio Trust Manager appointed East Coast as Portfolio Advisor to the Portfolio Trust, as such East Coast provides investment advisory and portfolio advisory services to the Portfolio Trust. Other than the services provided by the Portfolio Advisor, the Portfolio Trust Manager is responsible for the day-to-day activities of the Portfolio Trust from time to time. The services provided by the Portfolio Trust Manager under the terms of the agreement include, without limitation: (i) appointing, supervising and removing service providers for the Portfolio Trust as the Portfolio Trust 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 Portfolio Trust; (iv) maintaining proper books, accounts and records of the Portfolio Trust; (v) providing employees having the requisite experience and skill to perform the obligations of the Portfolio Trust Manager under the PT Management Agreement; and (vi) doing all such other acts or things and entering into agreements or documents on behalf of the Portfolio Trust to seek to achieve the investment objectives of the Portfolio Trust. In carrying out its obligations under the PT Management Agreement, the Portfolio Trust 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 Portfolio Trust, including without limitation exercising the standard of care, diligence and skill that a reasonably prudent person would exercise in similar circumstances.

#### *Details of the PT Management Agreement*

The Portfolio Trust Manager will continue as manager until the termination of the Portfolio Trust unless: (i) the Portfolio Trust Manager resigns by written notice to the Portfolio Trust; (ii) the Portfolio Trust Manager is removed by written notice given by the Portfolio Trust following the occurrence of certain specified events of default (as described below); or (iii) the Portfolio Trust Manager is removed by written notice given by the Portfolio Trust following an Extraordinary Resolution of the unitholders of the Portfolio Trust directing the Portfolio Trust to remove the Portfolio Trust Manager as manager of the Portfolio Trust. The following comprise an event of default under the PT Management Agreement: (i) the bankruptcy or insolvency of the Portfolio Trust Manager, or if the Portfolio Trust Manager either voluntarily or under an order of a court of competent jurisdiction makes a general assignment for the benefit of its creditors or otherwise acknowledges its insolvency; (ii) the Portfolio Trust Manager’s wilful misconduct, bad faith, negligence or breach of its standard of care owed under the PT Management Agreement, which in the case of negligence which is capable of being cured, is not cured within 30 days following written notice to the Portfolio Trust Manager from the Portfolio Trust specifying in reasonable detail the nature of such negligence; or (iii) the Portfolio Trust Manager no longer holds the licenses, registrations or other authorizations necessary to carry out its obligations thereunder and is unable to obtain them within a reasonable period after their loss. There is no termination of the Portfolio Trust Manager for breach of its obligations under the PT Management Agreement unless such breach constitutes a breach of the standard of care owed by the Portfolio Trust Manager.

The PT Management Agreement contains indemnification provisions whereby the Portfolio Trust indemnifies the Portfolio Trust Manager against any loss, expense, damage or injury suffered in the scope of its authority under the PT Management Agreement, provided the same does not result from wilful misconduct, bad faith, negligence or

breach of its standard of care owed under the PT Management Agreement. In addition, under the PT Management Agreement, the Portfolio Trust Manager indemnifies the Portfolio Trust against any loss, expense, damage or injury suffered as a result of the Portfolio Trust Manager's wilful misconduct, bad faith, negligence or breach of its standard of care owed under the PT Management Agreement.

For its services, the Portfolio Trust Manager will be paid the Portfolio Trust Management Fee described under "Fees and Expenses – Fees and Expenses of the Portfolio Trust – Portfolio Trust Management Fee" and "Fees and Expenses - Fees and Expenses of the Portfolio Trust – Operating Expenses". Pursuant to the terms of the PT Management Agreement, the Manager will bear all costs and expenses incurred by the Portfolio Trust Manager in connection with all salaries, employee expenses, office rent and equipment, and other expenses customarily considered to be overhead expenses.

### **The Portfolio Advisor**

East Coast will act as the Portfolio Advisor to the Portfolio Trust. As Portfolio Advisor, East Coast will be responsible for all portfolio advisory and investment management services that are provided to the Portfolio Trust in connection with the Portfolio pursuant to a portfolio advisory agreement between the Portfolio Trust Manager and the Portfolio Advisor dated April 26, 2012 (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 by Mike MacBain and John Schumacher, East Coast is 100% employee owned. East Coast and its experienced team of investment professionals led by Mike MacBain specialize exclusively in fixed income and, particularly, in Investment Grade Debt strategies. Mr. MacBain and the East Coast 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. Although a founder of East Coast, Mr. Schumacher is not involved with or responsible for any investment decisions in respect of the Portfolio Trust.

#### *Portfolio Advisor Investment Team*

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 29 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 – 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. Mr. MacBain received a Bachelor of Arts, Economics, from Mount Allison University.

The investment decisions made by these individuals are not subject to the oversight, approval or ratification of any committee of the Fund.

### *Details of the Portfolio Advisory Agreement*

Under the Portfolio Advisory Agreement, the Portfolio Advisor covenants to act honestly and in good faith with a view to the best interests of the Portfolio Trust and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. Pursuant to the Portfolio Advisory Agreement, the Portfolio Advisor, its affiliates and any of its officers, directors, employees, shareholders and agents shall be indemnified against all losses (other than loss of profits), expenses and liabilities incurred by any of them in connection with any matter relating to its respective duties under the Portfolio Advisory Agreement, unless any such indemnified person is finally adjudicated to have committed a material breach or default of its obligations under the Portfolio Advisory Agreement or an act or omission involving wilful misconduct, bad faith, negligence or reckless disregard of such person's duties under the Portfolio Advisory Agreement.

The Portfolio Advisory Agreement, unless terminated as described below, will continue until the termination of the Portfolio Trust. Notwithstanding the foregoing, the Portfolio Advisory Agreement, and the services provided thereunder by the Portfolio Advisor to the Portfolio Trust, is assignable to the Fund upon the termination of the Forward Agreement. The Portfolio Advisor may terminate the Portfolio Advisory Agreement, without payment of any penalty, in the following circumstances: (i) upon 30 days' notice; (ii) immediately upon termination of the PT Management Agreement; (iii) in the event that the Portfolio Trust Manager is in material breach of the Portfolio Advisory Agreement and the material breach has not been cured within 20 business days' notice thereof by the Portfolio Trust Manager; (iv) if there is a dissolution and commencement of winding-up of the Portfolio Trust Manager; (v) if the Portfolio Trust Manager becomes bankrupt or insolvent or makes a general assignment for the benefit of the creditors or a receiver is appointed in respect of the Portfolio Trust Manager or a substantial portion of the assets of the Portfolio Trust Manager; (vi) if the assets of the Portfolio Trust Manager become subject to seizure or confiscation by any public or governmental organization; (vii) if the Portfolio Trust Manager has lost any registration, license or other authorization or cannot rely on an exemption therefrom required by the Portfolio Trust Manager for it to perform the services delegated to it thereunder; or (viii) if the Portfolio Trust Manager has breached its standard of care or acted with wilful misconduct, fraud or negligence.

The Portfolio Trust Manager may terminate the Portfolio Advisory Agreement, without payment of any penalty, in the following circumstances: (i) upon 30 days' notice; (ii) in the event that the Portfolio Advisor is in material breach of the Portfolio Advisory Agreement and the material breach has not been cured within 20 business days' notice thereof to the Portfolio Advisor; (iii) if there is a dissolution and commencement of winding-up of the Portfolio Advisor; (iv) if the Portfolio Advisor becomes bankrupt or insolvent or makes a general assignment for the benefit of the creditors or a receiver is appointed in respect of the Portfolio Advisor or a substantial portion of the assets of the Portfolio Advisor; (v) if the assets of the Portfolio Advisor become subject to seizure or confiscation by any public or governmental organization; (vi) if the Portfolio Advisor has lost any registration, license or other authorization or cannot rely on an exemption therefrom required by the Portfolio Advisor for it to perform the services delegated to it thereunder; or (vii) if the Portfolio Advisor has breached its standard of care or acted with wilful misconduct, fraud or negligence.

The Portfolio Advisory Agreement will not be subject to termination under clause (ii) in the preceding paragraph if a material breach by the Portfolio Advisor cannot be cured within 20 business days' notice thereof but the Portfolio Advisor commences the cure within the 20 business day period and completes the cure within 45 days of such notice. In addition, if the Portfolio Advisor purchases or sells a security for the Portfolio or takes any other action with respect to the assets of the Portfolio that through inadvertence violates any investment strategy or restriction set forth in the Portfolio Advisory Agreement and the violation has or will have a material adverse effect on the Portfolio then it will not be considered a material breach for purposes of the termination right in clause (ii) in the preceding paragraph if the Portfolio Advisor takes action that returns the Portfolio to compliance with such investment strategy or restriction within the cure period described above, as the same may be extended by agreement in writing by the parties to the Portfolio Advisory Agreement.

The Portfolio Trust Manager is responsible for payment of the fees to the Portfolio Advisor.

## **Brokerage Arrangements**

The Portfolio Trust Manager and the Portfolio Advisor are responsible for selecting members of securities exchanges, brokers and investment dealers for the execution of transactions in respect of the Fund's investments and, when applicable, the negotiation of commissions in connection therewith. The Fund is responsible to pay those commissions.

The Portfolio Trust Manager's and the Portfolio Advisor's allocation of brokerage business to companies, including those that furnish statistical, research or other services to the Fund, is based on decisions made by the portfolio managers, analysts and traders of the Portfolio Trust Manager and the Portfolio Advisor and will only be made in compliance with applicable law and in accordance with the Portfolio Trust Manager's and the Portfolio Advisor's policies and procedures. The allocation of business among brokers is based on a number of factors, including: (i) the nature and character of the security or instrument being traded and the markets in which it is purchased or sold; (ii) the desired timing of the transaction; (iii) the Portfolio Trust Manager's and the Portfolio Advisor's knowledge of the expected commission rates and spreads currently available; (iv) the activity existing and expected in the market for the particular security or instrument; (v) the full range of brokerage services provided; (vi) the broker's or dealer's capital strength and stability, as well as its execution, clearance and settlement capabilities; (vii) the quality of research and research services provided; (viii) the reasonableness of the commission or its equivalent for the specific transaction; and (ix) the Portfolio Trust Manager's and the Portfolio Advisor's knowledge of any actual or apparent operational problems of a broker or dealer.

During the year there were not any brokerage arrangements provided to the Manager and its advisors or sub-advisors on behalf of the Fund. In the future the name of any dealer or third party that provides research and/or order execution goods and services through a brokerage arrangement to the Manager and its advisors or sub-advisors on behalf of the Fund will be provided upon request by contacting the Manager at 1-877-327-6048 or at email [info@arrow-capital.com](mailto:info@arrow-capital.com).

## **The Custodian**

CIBC Mellon Trust Company (the "**PT Custodian**") is the custodian of the assets of the Portfolio Trust pursuant to a custodian agreement between the PT Custodian and the Portfolio Trust (the "**PT Custodian Agreement**"). The PT Custodian is, among other things, in the business of providing professional custodial services. The head office of the PT Custodian is located in Toronto, Ontario. The PT Custodian may employ sub-custodians as considered appropriate in the circumstances. Pursuant to the PT Custodian Agreement the PT Custodian will provide safekeeping and custodian services in respect of the assets of the Portfolio Trust.

The Portfolio Trust will pay the PT Custodian customary custodianship fees for its services. The PT Custodian Agreement may be terminated by other party on 30 days' notice, and immediately by either party on written notice if either party declared bankruptcy or becomes insolvent, the assets or the business of either party becomes liable to seizure or confiscation by any public government authority, the Portfolio Trust Manager's powers and authority to act on behalf of or in respect of the Portfolio Trust has been revoked or terminated.

## **Auditor**

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

## **Transfer Agent and Registrar**

The Portfolio Trust Manager has been appointed the registrar and transfer agent for the Portfolio Trust at its principal office located in Toronto, Ontario.

## **Securities Lending Agent**

The Securities Lending Agent, the Bank of New York Mellon, a New York State chartered bank, is the securities lending agent for the Portfolio Trust. The Securities Lending Agent is independent of the Portfolio Trust Manager. The Portfolio Trust Manager (and the Manager) has appointed the Securities Lending Agent under the terms of the Securities Lending Agreement in order to administer any securities lending, repurchase and reverse repurchase transactions for the Portfolio Trust (and the Fund). See “Securities Lending, Repurchase or Reverse Repurchase Transactions” on page 26 for additional information regarding the Securities Lending Agent and securities lending practices of the Portfolio Trust (and Fund).

Pursuant to the Securities Lending Agreement, the Portfolio Trust (and Fund) will indemnify the Securities Lending Agent, and the Securities Lending Agent and affiliates will indemnify the Portfolio Trust (and Fund), from all claims, losses, damages, liabilities, costs and expenses (including reasonable counsel fees and expenses but excluding consequential or indirect damages), suffered by any party arising from: (i) the failure of the indemnifying party to perform any of its obligations under the Securities Lending Agreement, (ii) any inaccuracy of any representation or warranty made by the indemnifying party in the Securities Lending Agreement, or (iii) any fraud, bad faith, wilful misconduct, gross negligence or reckless disregard of duties by the indemnifying party, in connection with or relating to the Securities Lending Agreement. The Securities Lending Agreement may be terminated at any time at the option of either party upon 30 days’ prior written notice to the other party.

## **Promoter**

The Portfolio Trust Manager may be considered a promoter of the Portfolio Trust by reason of its initiative in forming and establishing the Portfolio Trust. The Portfolio Trust Manager will not receive any benefits, directly or indirectly, other than amounts paid to the Portfolio Trust Manager as described under “Fees and Expenses”.

## **CONFLICTS OF INTEREST**

### **Principal Holders of Securities**

#### *Principal Unitholders*

To the knowledge of the Fund, no person owns of record more than 10% of the Units of the Fund, except for: (i) CDS & Co., the nominee of CDS, which holds 100% of the Units as registered owner for various brokers and other persons on behalf of their clients and others, and the names of the beneficial owners of such Units are not known to the Fund; (ii) RBC Dominion Securities Inc., Retail Division and RBC Private Counsel (USA) Inc. which collectively, as of December 30, 2016, had control or direction over 705,753 units of the Fund, representing approximately 14.52% of the issued and outstanding units of the Fund.

#### *Principal Securityholders of the Manager*

As at March 28, 2017, the directors and senior officers of the Manager owned, directly or indirectly, in aggregate, 83.7% of the outstanding shares of the Manager. As at March 28, 2017, the directors and senior officers of the Manager as a group, beneficially owned, directly or indirectly, less than one percent of the outstanding Units of the Fund. As of March 28, 2017, the directors and senior officers of the Manager owned, directly or indirectly, in aggregate, less than one percent of the outstanding common shares of the Bank of Nova Scotia (the Counterparty).

### **Securities Held by Members of the Investment Review Committee**

As of March 28, 2017, the members of the IRC did not own, directly or indirectly, any securities in the Manager or any Units of the Fund. Further, as at March 28, 2017, the percentage of securities in any person or company that provides services to the Fund or the Manager, beneficially owned, directly or indirectly, in aggregate, by all IRC members of the Fund is less than one percent.

## Conflicts 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 or the Portfolio Trust 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 Portfolio Trust may acquire securities and may be managers or portfolio advisors of funds that invest in the same securities as the Fund or the Portfolio Trust. The services of the Manager are not exclusive to the Fund or the Portfolio Trust. 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 or the Portfolio Trust.

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 which would be obtained from parties which 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 or the Portfolio Trust and any other fund for which the proposed investment would be within such fund's investment objectives, as required by the Management Agreement, the PT 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 "Fund Governance – Independent Review Committee".

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 Portfolio Trust 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 Portfolio Trust or to the Portfolio Trust Manager, or the Portfolio Advisor, or their affiliates. This allows the Portfolio Trust 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.

## FUND GOVERNANCE

### 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 and the Portfolio Trust, in accordance with National Instrument 81-107 - *Independent Review Committee for Investment Funds* ("NI 81-107"). The IRC is required to be comprised of a minimum of three members, each of whom must be independent of the Manager and the Funds. The current members of the independent review committee of the Manager are Ross MacKinnon (chair), Ronald Riley and John Anderson. Below is a brief profile of each committee member.

**Ross MacKinnon** was director of financial markets with the Bank of Canada from February 2000 until February 2009. Mr. MacKinnon began his employment with Nesbitt Burns in February 1985 and held the position of Senior Vice President and Director from September 1987 until June 1999. Mr. MacKinnon received an Honours Business Administration degree from the University of Western Ontario in 1972.

**Ronald Riley** (B.Eng., MBA) retired. Former senior officer, Canadian Pacific Ltd, former owner and CEO of Calvin Bullock Ltd (a mutual fund management company) and Chateau Insurance Co, and latterly Vice President and Investment Advisor, National Bank Financial.

**John Anderson** has over 30 years of financial and corporate governance experience including 14 years as a partner at Ernst & Young from 1979 to 1992. Mr. Anderson has been the Chief Financial Officer of LPBP Inc., a company which formerly invested in health science-focussed partnerships, since May 2004. Mr. Anderson was the Chief Financial Officer of TriNorth Capital Inc. from June 2009 to December 2009 and the Chief Financial Officer of Impax Energy Services Income Trust, an income trust, from June 2006 to May 2009. From 2005 to June 2006, Mr. Anderson was self-employed. Previously, he was the Chief Financial Officer of The T. Eaton Company Limited. Mr. Anderson currently serves as lead director and chair of the audit committee of NeuLion Inc. (TSX: NLN), a director and chair of the Audit Committee of Pivot Technology Solutions Inc. (CVE:PTG) and an independent director of Marret Resources Corp (TSE:MAR). Mr. Anderson was formerly a director of the Canadian Medical Discoveries Fund and the Chairman of the Board of Directors of Ridley College. Mr. Anderson holds a Bachelor of Arts degree from the University of Toronto and is a chartered accountant in Canada. In 2006, Mr. Anderson obtained the ICD.D designation by graduating from the Rotman Institute of Corporate Directors at the University of Toronto.

The Manager's IRC acts in accordance with applicable securities law, including NI 81-107. The mandate of the IRC is to review and provide either its approval or recommendations, as the case may be, to the Manager on conflict of interest matters that the Manager has referred to the IRC for review. For greater certainty, unless specified, the mandate of the IRC does not include broader oversight functions with respect to the Funds, including compliance matters, audit functions or administrative functions.

The IRC has adopted a written charter, which it follows when performing its functions, and is subject to requirements to conduct regular assessments. In performing their duties, members of the IRC are required to act honestly, in good faith and in the best interests of the Funds and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The IRC reports annually to the unitholders of the Funds. These reports will be available free of charge upon request by calling the Manager toll-free at 1 (877) 327-6048 or (416) 323-0477 or by email at [info@arrow-capital.com](mailto:info@arrow-capital.com).

NI 81-107 requires the Manager to have policies and procedures relating to the management of any conflicts of interest. The Manager has existing policies, procedures and guidelines including, but not limited to, investment trade allocation, portfolio monitoring, soft dollar arrangements, proxy voting, and pricing of illiquid or restricted securities that are applicable to its management of conflicts of interest. The Manager is required to identify conflict of interest matters inherent in its management of the Funds and request input from the IRC in respect of how it manages those conflicts of interest, as well as its written policies and procedures outlining its management of those conflicts of interest.

### **General Fund Governance**

The Manager is responsible for the governance of the Fund. Please see "Responsibility of Fund Operations – The Manager of the Fund" herein for information regarding the officers of Manager and the members of the Manager's board of directors. Fund governance refers to the policies, practices and guidelines of the Fund that relates to business practices, sales practices and internal conflicts of interest.

The board of directors of the Manager has established appropriate policies, practices and guidelines relating to the business practices, sales practices, risk management controls and internal conflicts of interest as more fully described herein.

The return to the Unitholders and the Fund will be dependent upon the economic performance of the Portfolio Trust and on the Portfolio by virtue of the Forward Agreement. As such, the Manager's responsibilities for the governance of the Fund involve the monitoring of the policies, practices and guidelines of the Portfolio Trust.

### **Derivatives and Selling Securities Short**

#### *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 Portfolio Trust. 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.

Please see “Risk Factors” herein for a description of the risk factors associated with the use of derivatives.

### *Hedging and Short Selling*

The investment strategies of the Portfolio Trust 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 Portfolio Trust on a daily mark-to-market basis.

The investment strategies employed by the Portfolio Trust 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 Portfolio Trust borrows the securities and the time it repurchases and returns the securities to the lender, the Portfolio Trust makes a profit for the difference (less the interest the Portfolio Trust is required to pay to the lender).

Shorting corporate bonds directly is not practical because the Portfolio Advisor’s limited ability to borrow the securities being sold short and deliver them to the owner on a daily basis. The market for borrowing corporate bonds is not nearly as deep as it is for borrowing securities in the equity market or the government bond market. As such, the Portfolio Advisor primarily uses futures contracts and options instruments to protect capital during challenging markets but may use over-the-counter credit default swaps where required. The Portfolio Trust’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 Portfolio Trust may deposit assets with and/or provide a security in favour of lenders or brokers in accordance with industry practice in relation to its obligations arising under its hedging and short sale transactions.

### *Policies and Procedure - Derivatives and Selling Securities Short*

The Manager has policies and practice guidelines to manage the risks associated with the use of derivative, hedging and short selling instruments. Such policies and practice guidelines require that:

- the use of derivative instruments, hedging instruments and instruments used to short sell securities be consistent with the Fund’s Investment Objectives and policies;
- the risks associated with the use of derivatives, hedging and short sell of securities be adequately described in the Fund’s public disclosure documents;
- authorized officers or directors of the Manager approve the parameters, including trading limits, under which derivative, heading and short selling trading is to be permitted for the Fund and that such parameters comply with applicable securities legislation; and
- the operational, monitoring and reporting procedures in place ensure that all derivatives transactions as well as transaction relating to hedging and instruments used to short sell securities are completely and accurately recorded, in accordance with their approved use, and within the limits and regulatory restrictions prescribed for the Fund.

These policies and practice guidelines are reviewed as necessary by the Chief Investment Officer of the Manager.

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

### *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 Portfolio Trust may enter into securities lending, repurchase and reverse repurchase transactions. Any securities lending by the Portfolio Trust must be pursuant to a securities lending agreement to be entered into between the Portfolio Trust and a securities borrower acceptable to the Portfolio Trust pursuant to which the Portfolio Trust 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 Portfolio Trust a negotiated securities lending fee and will make compensation payments to the Portfolio Trust 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 Tax Act; and (iii) the Portfolio Trust must receive collateral security. In a repurchase transaction the Portfolio Trust 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 Portfolio Trust 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 Portfolio Trust will be pursuant to a master repurchase agreement to be entered into between the Portfolio Trust and a counterparty pursuant to which the Portfolio Trust 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 will be responsible for setting and reviewing any securities lending, repurchase and reverse repurchase transactions.

### *Policies and Procedure - Securities Lending, Repurchase and Reverse Repurchase Transactions*

The Manager has policies and practice guidelines to manage the risks associated with the use of securities lending, repurchase and reverse repurchase instruments.

The Fund and Portfolio Trust will not enter into a securities lending transaction or a repurchase transaction if, immediately thereafter, the aggregate market value of all securities loaned by the Fund and Portfolio Trust and not yet returned to it or sold by the Fund and Portfolio Trust in a repurchase transaction and not yet repurchased would exceed 50% of the total assets of the Fund and Portfolio Trust, respectively (exclusive of collateral held by the Fund and Portfolio Trust for securities lending transactions and cash held by the Fund and Portfolio Trust for repurchase transactions).

Such policies and practice guidelines require that:

- the use of securities lending, repurchase and reverse repurchase instruments be consistent with the Fund’s Investment Objectives and policies;
- the risks associated with securities lending, repurchase and reverse repurchase transactions be adequately described in the Fund’s public disclosure documents;
- authorized officers or directors of the Manager approve the parameters, including trading limits, under which securities lending, repurchase and reverse repurchase trading is to be permitted for the Fund and that such parameters comply with applicable securities legislation; and
- the operational, monitoring and reporting procedures in place ensure that all securities lending, repurchase and reverse repurchase transactions are completely and accurately recorded, in accordance with their approved use, and within the limits and regulatory restrictions prescribed for the Fund.

The risks associated with these transactions will be managed by requiring that the Securities Lending Agent to enter into such transactions for the Fund and Portfolio Trust with reputable and well-established Canadian and foreign brokers, dealers and institutions.

The Securities Lending Agent is required to maintain internal controls, procedures and records including a list of approved third parties based on generally accepted creditworthiness standards, transaction and credit limits for each third party, and collateral diversification standards. Each day, the Securities Lending Agent will determine the market value of both the securities loaned by the Fund and Portfolio Trust under a securities lending transaction or sold by the Fund and Portfolio Trust under a repurchase transaction and the cash or collateral held by the Fund and

Portfolio Trust for such transactions. If on any day the market value of the cash or collateral is less than 102% of the market value of the borrowed or sold securities, on the next day the borrower will be required to provide additional cash or collateral to the Fund and Portfolio Trust to make up the shortfall.

The Manager and the Securities Lending Agent review at least annually the policies and procedures described above to ensure that the risks associated with securities lending, repurchase and reverse repurchase transactions are being properly managed. Risk measurement procedures or simulations are not currently used to test the portfolio under stress conditions.

### **Proxy Voting Policies and Procedures**

The Fund does not hold voting securities, but is exposed to securities held in the Portfolio by means of the Forward Agreement. The Manager is authorized to exercise all rights and privileges incidental to ownership for the Portfolio.

The Manager has delegated the obligation to exercise the Fund's voting rights to the Portfolio Advisor. The Portfolio Advisor has established proxy voting policies and procedures (the "**Proxy Voting Policy**"). The Proxy Voting Policy is reviewed by the Manager on an annual basis.

The Proxy Voting Policy provides that the Portfolio Advisor will vote the securities in the Portfolio in the best interests of the Unitholders. The Proxy Voting Policy provides that routine, uncontested matters to be considered at annual general meetings will generally be voted in accordance with management's recommendations. More complex, non-routine matters (e.g. certain issues related to the compensation and liability of directors, amendments to the constating documents of an issuer, share and debt issuances, related party transactions, reorganizations, restructurings, shareholder proposals and proposals relating to corporate social responsibility) will be decided on a case-by-case basis.

The Proxy Voting Policy also provides procedures for dealing with potential conflicts of interest, the delegation of proxy voting services to third party service providers such as Institutional Shareholder Services Canada Corp. and recordkeeping obligations whereby the Portfolio Advisor will maintain records of all votes cast by the Portfolio Trust.

The Manager will publish these records, if any, for the period ending June 30 of each year, on its web site at [www.arrow-capital.com](http://www.arrow-capital.com) any time after August 31 of that year. A copy of the Proxy Voting Policy is available on request, at no cost, by calling the Manager at (416) 323-0477 or writing to the Manager at 36 Toronto Street - Suite 750, Toronto, Ontario, M5C 2C5.

### **Short-Term Trading**

The Units trade on the TSX, therefore the Manager does not have policies and procedures in place to monitor, detect and deter short-term trading.

## **FEES AND EXPENSES**

### **Fees and Expenses of the Fund**

#### *Management Fee*

The Manager will receive from the Fund a management fee (the "**Management Fee**") equal to 0.25% per annum of the NAV of the Fund, calculated daily and paid monthly in arrears, plus an amount calculated quarterly and paid as soon as practicable after the end of each calendar quarter equal to the Service Fee (as defined below), plus any applicable taxes. In connection with the management of the Portfolio Trust, Arrow will receive from the Portfolio Trust a management fee (the "**Portfolio Trust Management Fee**") equal to 1.00% of the NAV of the Portfolio Trust, plus any applicable taxes. The aggregate of the Management Fee, the Service Fee and the Portfolio Trust Management Fee is approximately 1.65%.

### *Service Fee*

The Manager will pay each registered dealer a service fee (the “**Service Fee**”) equal to 0.40% annually of the NAV per Unit for each Unit held by the clients of such registered dealer, plus any applicable taxes.

### *Counterparty Fee*

The Fund will pay to the Counterparty an additional purchase amount under the Forward Agreement, calculated daily and payable quarterly in arrears, of 0.45% per annum of the notional amount of the Forward Agreement (being effectively equal to the NAV of the Portfolio Trust).

### *Operating Expenses*

The Fund pays for all ordinary expenses it incurs in connection with its operation and management, including, but not limited to: (a) financial reporting costs and mailing and printing expenses for periodic reports to securityholders and other securityholder 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 Fund is also 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 Annual Information Form 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.

## **Fees and Expenses of the Portfolio Trust**

### *Portfolio Trust Management Fee*

The Portfolio Trust Manager receives from the Portfolio Trust the Portfolio Trust Management Fee equal to 1.00% of the NAV of the Portfolio Trust, calculated daily and payable monthly in arrears. For as long as Arrow is both the manager and trustee of the Portfolio Trust, it is not entitled to receive any fees in addition to the Portfolio Trust Management Fee for its duties as trustee.

### *Portfolio Advisor Fee*

The Portfolio Advisor is remunerated by the Portfolio Trust Manager out of the Portfolio Trust Management Fee (the “**Portfolio Advisor Fee**”) provided that the Portfolio Advisor Fee payable to the Portfolio Advisor shall not be paid in respect of the NAV of the Portfolio Trust attributable to any assets invested in the securities of any investment funds (including mutual funds) managed by the Portfolio Advisor or an affiliate of the Portfolio Advisor.

### *Performance Fee*

The Portfolio Trust Manager will be entitled to receive, for each fiscal year of the Portfolio Trust, a performance fee (the “**Performance Fee**”), if and only if: (i) the percentage appreciation in the NAV per unit of the Portfolio Trust during such fiscal year (including any distributions paid on the units of the Portfolio Trust) (the “**Portfolio Trust Performance**”) exceeds 5.30% (the “**Hurdle Rate**”); and (ii) the Portfolio Trust 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 Portfolio Trust 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 of the Portfolio Trust then outstanding, an amount equal to 10% of the amount by which the sum of:

- (a) the NAV per unit of the Portfolio Trust (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 of the Portfolio Trust on the Determination Date for the immediately preceding fiscal year (after payment of such Performance Fee);
- (b) the NAV per unit of the Portfolio Trust immediately following the 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 of the Portfolio Trust 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 or Annual Redemption Date during a fiscal year of the Fund (other than on the last business day of a fiscal year), the Portfolio Trust shall pay the Portfolio Trust Manager, if earned, a Performance Fee in respect of any concurrently redeemed units of the Portfolio Trust 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 Portfolio Trust Manager on the applicable redemption date and will be subtracted from the redemption proceeds.

#### *Operating Expenses*

The Portfolio Trust will pay for all of its expenses incurred in connection with its operation and administration. The Portfolio Trust will also be responsible for its costs of portfolio transactions and any extraordinary expenses that may be incurred from time to time.

#### *Additional Services*

Any arrangements for additional services between the Portfolio Trust, the Portfolio Trust Manager and the Portfolio Advisor, or any affiliate thereof, that have not been described in this Annual Information Form will be on terms that are no less favourable to the Portfolio Trust than those available from arm’s length persons (within the meaning of the Tax Act) for comparable services the Portfolio Trust will pay all expenses associated with such additional services.

## **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 who acquires Units. 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 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 assumptions that the Canadian Securities Portfolio will consist solely of “Canadian securities” for the

purposes of the Tax Act and that the Fund will elect in accordance with the Tax Act to have each of its Canadian securities treated as capital property.

This summary is based on the current provisions of the Tax Act, the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”) published in writing prior to the date hereof and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (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 provincial 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, among other things, comply on a continuous basis with certain minimum requirements respecting the ownership and dispersal of Units. 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. Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act, the Units will be qualified investments under the Tax Act for trusts governed by Registered Plans.

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 in each taxation year under Part I of the Tax Act on the amount of its net income for the year, including net realized taxable capital gains, less the portion thereof that it deducts in respect of the amount paid or 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 and, therefore, provided the Fund makes distributions in each year of its income, including its net realized capital gains as described under “Distribution Policy”, it will generally not be liable in such year for income tax under Part I of the Tax Act.

The Fund will not realize any income, gain or loss as a result of entering into the Forward Agreement and no amount will be included in computing the Fund’s income as a result of the acquisition of Canadian Securities Portfolio securities under the Forward Agreement. The cost to the Fund of such Canadian Securities Portfolio securities will be that portion of the aggregate amount paid by the Fund under the Forward Agreement attributable to such securities and any other costs of acquisition. The Fund has elected in accordance with the Tax Act to have each of its “Canadian securities” treated as capital property, such that gains or losses realized by the Fund on the sale of Canadian Securities Portfolio securities acquired under the Forward Agreement will be taxed as capital gains or capital losses. If the obligations of the Fund and the Counterparty are settled by making cash payments, a payment made or received by the Fund may be treated as an income outlay or receipt, as applicable.

The Fund will be entitled for each taxation year throughout which it is a mutual fund trust for purposes of the Tax Act 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 (the “**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 which may arise upon the disposition of securities included in the Canadian Securities Portfolio in connection with the redemption of Units.

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.

### **Taxation of Unitholders**

A Unitholder will generally be required to include, in computing income for a taxation year, the amount of the Fund’s net income for the taxation year, including net realized taxable capital gains, paid or payable to the Unitholder in the taxation year, whether paid in cash or additional Units. The non-taxable portion of the Fund’s net realized capital gains paid or payable (whether in cash or in Units) to a Unitholder in a taxation year will not be included in the Unitholder’s income for the year. Any other amount in excess of the Fund’s net income for a taxation year paid or payable to the Unitholder in the year will not generally be included in the Unitholder’s income. Such amount, however, will generally reduce the adjusted cost base of the Unitholder’s Units. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder’s adjusted cost base will be increased by the amount of such deemed gain. Provided that appropriate designations are made by the Fund, such portion of the net realized taxable capital gains of the Fund 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.

On the disposition or deemed disposition of a Unit, the Unitholder will realize a capital gain (or capital loss) to the extent that Unitholders’ proceeds of disposition (net of any reasonable costs of disposition) exceed (or are less than) the adjusted cost base of the Unit. For the purpose of determining the adjusted cost base to a Unitholder of a Unit, when a Unit is acquired, the cost of the newly acquired Unit will be averaged with the adjusted cost base of all Units owned by the Unitholder as capital property that were acquired before that time.

One-half of any capital gain (“**taxable capital gain**”) realized on the disposition of Units will be included in the Unitholder’s income and one-half of any capital loss realized may be deducted from taxable capital gains 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 or taxable capital gains realized on the disposition of Units may increase the Unitholder’s liability for alternative minimum tax.

### **Taxation of Registered Plans**

Amounts of income and capital gains distributed by the Fund to a Registered Plan are generally not taxable under Part I of the Tax Act while retained in the Registered Plan, provided that the Units are qualified investments under such a Registered Plan. Unitholders should consult with their own advisors regarding the tax implications of establishing, amending, terminating or withdrawing amounts from 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 proposals announced in the Canadian federal budget on March 22, 2017, the foregoing prohibited investment rules are proposed to also be extended to registered disability savings plans and registered education savings plans. Prospective unitholders who intend to hold Units in a Registered Plan should consult their own tax advisors regarding their particular circumstances.

## **REMUNERATION OF DIRECTORS, OFFICERS, TRUSTEES AND IRC**

### **Remuneration of Directors and Officers**

The officers of the Manager receive their remuneration from the Manager. The directors of the Manager do not receive any director fees. The expenses of the directors of the Manager and the premiums for directors' and officers' insurance coverage for the directors and officers of the Manager are paid by the Manager.

### **Remuneration of the IRC**

Compensation for members of the IRC in respect of the Fund is currently \$18,000 for the chair and \$14,000 per member per annum. The fees and other reasonable expenses of members of the IRC, as well as premiums for insurance coverage for such members, are paid by the Fund and other applicable investment funds managed by the Manager on a *pro rata* basis. In addition, the Fund has agreed to indemnify the members of the IRC against certain liabilities. The total amount of the fees and expenses of the IRC members paid by the Fund for the year ended December 31, 2016 was \$4,600 (\$9,200 when combined with the fees and expenses of the IRC members paid by the Portfolio Trust over the same period).

### **Remuneration of the Trustee**

Pursuant to the Declaration of Trust, the Trustee is entitled to be paid a fee for services provided to the Fund as trustee of the Fund and to be reimbursed for all expenses which are reasonably incurred by the Trustee in that capacity, provided that the Manager and the Trustee are not the same Person or affiliates. For the year ended December 31, 2016, the Trustee was paid an aggregate amount of \$Nil, on account of its fee and reimbursed in aggregate \$Nil on account of expenses incurred by it in its capacity as trustee of the Fund.

## **MATERIAL CONTRACTS**

Contracts material to investors in the Units offered 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 "Name, Formation and History of the Fund" and "Description of Securities Offered by the Fund";
- (ii) the Custodian Agreement referred to under "Responsibility of Fund Operations – The Custodian"; and
- (iii) the Forward Agreement described under "Name, Formation and History of the Fund".

Copies of the foregoing agreements may be inspected during business hours at the principal office of the Fund and the Manager during the course of distribution of the Units offered hereby.

## LEGAL AND ADMINISTRATIVE PROCEEDINGS

The Manager is not aware of any material ongoing, pending or threatened legal or administrative proceedings to which the Fund or the Manager are a party.

## 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 Annual Information Form. As a result of the Forward Agreement, Unitholders are exposed to risks relating to the Portfolio Trust and the Portfolio. These risks and uncertainties are not the only ones that could affect the Fund, the Portfolio Trust 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 or the Portfolio Trust. If any such risks actually occur, the returns, the NAV, the financial condition and the results of operations of the Fund or the Portfolio Trust could be materially adversely affected and each of the financial performance of the Fund or the Portfolio Trust 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 objective, strategies and restrictions to be utilized by the Fund and the Portfolio Trust 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 by virtue of the Forward Agreement through which the Fund obtains economic exposure to the Portfolio. The value of the securities included in the Portfolio will be influenced by factors which are not within the control of the Portfolio Trust or 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 Portfolio Trust 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 or the Portfolio Trust will be able to achieve their respective 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.

By virtue of the Forward Agreement, 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).

#### *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.

#### *Forward Agreement Counterparty Risk*

As a result of the Forward Agreement, which is the sole material asset of the Fund, the Fund is fully exposed to the credit risk associated with the Counterparty. The possibility exists that the Counterparty will default on its obligations under the Forward Agreement. To secure the obligations of the Counterparty under the Forward Agreement, the Counterparty has pledged collateral in favour of the Fund with an aggregate value equal to 100% of the mark-to-market value of the exposure to the Counterparty under the Forward Agreement and the amount of the collateral will be reset on a weekly basis to 100%. Should a bankruptcy or other similar event related to the Counterparty occur that precludes the Counterparty from performing its obligations under the Forward Agreement, the Fund would have to enforce its security interest and the Forward Agreement would be terminated. See “Risk Factors – Early Termination of the Forward Agreement” and “Name, Formation and History of the Fund – The Forward Agreement”.

#### *Early Termination of the Forward Agreement*

In the event the Forward Agreement terminates prior to the termination of the Fund, the Fund may enter into one or more new forward agreements or may temporarily hold the Portfolio directly. The tax consequences to Unitholders may be different in the event that the Fund holds the Portfolio directly.

#### *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 “Redemption of Securities”. 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 Portfolio Trust Manager will be accrued at each Valuation Date as a liability of the Portfolio Trust, ultimately reducing the NAV per Unit of the Fund. 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 and the Portfolio Trust’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 Portfolio Trust 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 Portfolio Trust in a manner consistent with the investment objectives and the investment restrictions of the Portfolio Trust. The officers of East Coast who will be 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 Portfolio Trust.

#### *Reliance on the Manager and the Portfolio Trust Manager*

Arrow will manage the Fund and the Portfolio Trust in a manner consistent with the investment objectives and the investment restrictions of the Fund and the Portfolio Trust, respectively. The officers of Arrow who will be primarily responsible for the management of the Fund and the Portfolio Trust have limited experience in managing closed-end funds. There is no certainty that the officers will continue to be employees of Arrow until the termination of the Fund and/or the Portfolio Trust.

#### *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 Portfolio Trust may be held in one or more margin or collateral accounts due to the fact that the Portfolio Trust 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 Portfolio Trust may experience losses which would adversely affect the total return to the Fund.

Furthermore, from time to time, certain of the assets of the Portfolio Trust may be held in one or more margin accounts to facilitate the Portfolio Trust 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 Portfolio Trust 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 Portfolio Trust 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 and the Portfolio Trust Investments*

Valuation of the Portfolio and other assets 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 Portfolio Trust's securities and other assets. Valuation determinations will be made in good faith in accordance with the Declaration of Trust or PT Declaration of Trust, as applicable.

The Portfolio Trust 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 or Portfolio Trust 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.

### *Operating History*

Although all persons involved in the management and administration of the Fund, including the service providers to the Fund, have significant experience in their respective fields of specialization, the Fund is a newly organized investment trust with no previous operating history prior to its completion of its initial public offering on May 18, 2012. There is currently a public market for the Units and there can be no assurance that an active public market for the Units will be sustained.

### *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 which 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 which 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*

The Fund has made the election under the Tax Act to treat each of its “Canadian securities” as defined in subsection 39(6) of the Tax Act as capital property. In determining its income for tax purposes, the Fund will treat gains or losses on any disposition of securities in the Canadian Securities Portfolio under the Forward Agreement as capital gains and losses. No advance income tax ruling has been requested or obtained from the CRA regarding the timing or characterization of the Fund’s gains or losses.

If, contrary to the advice of counsel to the Fund, whether through the application of the general anti-avoidance rule or otherwise, or as a result of a change of law, upon any physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced.

If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading “Income Tax Considerations” would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the CRA respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

### *Character Conversion Tax Rules*

Recent amendments to the Tax Act relating to character conversion transactions will treat gains and losses realized from the disposition of property under certain “derivative forward contracts”, as defined in the legislation (such as the Forward Agreement), as ordinary income and losses. These amendments will not apply to the Forward Agreement currently used by the Fund, provided that the term of the Forward Agreement is not extended and that, prior to its expiration date, the size of the Forward Agreement is not increased. No new Forward Agreements will be entered into by the Fund and it is the intention of the Manager to avoid the application of the amendments described above to the existing Forward Agreement by not making any of the changes described above.

### *United States Withholding Tax*

Pursuant to the *Foreign Account Tax Compliance Act* (“**FATCA**”) and the Canada-US Intergovernmental Agreement (“**IGA**”) and its implementing provisions under the Tax Act, starting in 2014 (for U.S. source income) and starting in 2017 (for non-U.S. source income and certain gross proceeds), unitholders of the Fund may be required to provide identity and residency information to the Fund and unitholders (and their controlling entities) of the Fund may be required to provide other financial information to the Fund, all of which may be provided by the Fund to the Canada Revenue Agency, which will in turn provide such information to the U.S. tax authorities, in order to avoid a U.S. withholding tax being imposed on U.S. and certain non-U.S. source income and proceeds of disposition received by the Fund or on certain amounts (including distributions) paid by the Fund to certain unitholders. If the Fund fail to comply with the international information reporting requirements under the IGA, they will be subject to the penalty provisions of the Tax Act. Any potential taxes or penalties associated with such reporting requirements may reduce the Fund’s returns to unitholders.

### *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 or the Portfolio Trust.

### *Conflicts of Interest – The Fund*

The Manager and its 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 will devote his or her full time to the business and affairs of the Fund, each director and officer of the Manager 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 and the Manager.

### *Conflicts of Interest – The Portfolio Trust*

The Portfolio Advisor and its 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 Portfolio Trust. Although none of the directors or officers of the Portfolio Advisor will devote his or her full time to the business and affairs of the Portfolio Trust, each director and officer of the 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 Portfolio Trust and the Portfolio Advisor.

### *Status of the Fund*

As the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to the Canadian policies and regulations that apply to open-end 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 NAV 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 Exposure to the Portfolio Trust**

#### *General Economic and Market Conditions*

The success of the Portfolio Trust’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 Portfolio Trust’s investments. Unexpected volatility or illiquidity could impair the Portfolio Trust’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 Portfolio Trust 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 will 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 by virtue of the Forward Agreement. 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.

### *Recent Global Financial Developments*

Global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as global governments are attempting to restore liquidity to the global economies, no assurance can be given that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. Some of these economies may experience significantly diminished growth or a recession. These market conditions and unexpected volatility or illiquidity in financial markets may also adversely affect the prospects of the Portfolio Trust and the value of the securities included in the Portfolio.

### *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 objective of the Portfolio Trust implies 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 Portfolio Trust 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 U.S. 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 U.S. dollar relative to the Canadian dollar. The Portfolio Trust 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. 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 Portfolio Trust may engage in a high rate of trading activity resulting in correspondingly high transaction costs being borne by the Portfolio Trust.

### **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 which 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 Portfolio Trust 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 Portfolio Trust 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 Portfolio Trust 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 Portfolio Trust 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 Portfolio Trust is subject to the risk that the borrower may not fulfill its obligations, leaving the Portfolio Trust holding collateral worth less than the securities it has lent, resulting in a loss to the Portfolio Trust. The Portfolio Advisor will reduce the risk to the Portfolio by requiring the other party to put up collateral.

A repurchase transaction involves the Portfolio Trust 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 Portfolio Trust 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 Portfolio Trust. If the other party defaults on its obligation to resell the securities to the Portfolio Trust the collateral may be insufficient to enable the Portfolio Trust to purchase replacement securities and the Portfolio Trust may suffer a loss for the difference. Similarly, over time, the value of the securities purchased by the Portfolio Trust under a reverse repurchase transaction may decline below the amount of cash paid by the Portfolio Trust to the other party. If the other party defaults on its obligation to repurchase the securities from the Portfolio Trust, the Portfolio Trust may need to sell the securities for a lower price and suffer a loss for the difference.

### *Use of Leverage*

The Portfolio Trust 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 Portfolio Trust's NAV will decrease. Any event which adversely affects the value of an investment held by the Portfolio Trust 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 Portfolio Trust and which could result in a loss for the Portfolio Trust.

### *Suspension of Trading*

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

# EAST COAST INVESTMENT GRADE INCOME FUND



(Manager, Promoter and Portfolio Trust Manager)



(Portfolio Advisor to the Portfolio Trust)

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Additional information about the Fund is available in the Fund's management report of fund performance and financial statements. You can receive a copy of these documents at no cost by calling 1-877-327-6048, or from your dealer or by e-mail at [info@arrow-capital.com](mailto:info@arrow-capital.com). These documents and other information about the Fund are also available on the Manager's website at [www.arrow-capital.com](http://www.arrow-capital.com) or at [www.sedar.com](http://www.sedar.com).