

A N N U A L F I N A N C I A L S T A T E M E N T S



**AUDITED ANNUAL FINANCIAL STATEMENTS**

**DECEMBER 2019**

**EAST COAST INVESTMENT GRADE INCOME FUND**

# EAST COAST INVESTMENT GRADE INCOME FUND

## Statements of Financial Position

	As at December 31, 2019	As at December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Financial assets at fair value through profit and loss:		
Investments	\$372,852,776	\$530,137,123
Options - long	-	12,547
Unrealized gain on futures contracts - long	6,233	3,643,530
Unrealized gain on futures contracts - short	42,254	-
Cash and cash equivalents	23,774,306	5,581,553
Margin deposits	4,865,166	7,956,782
Accrued interest and dividends receivable	2,629,274	3,559,765
Receivable for securities sold	1,002,719	2,464,006
	405,172,728	553,355,306
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Financial liabilities at fair value through profit and loss:		
Investments sold short	246,486,372	404,468,928
Options - short	-	44,930
Unrealized loss on futures contracts - long	206,800	5,543
Unrealized loss on futures contracts - short	-	293,088
Unrealized loss on swap contracts	579,403	272,036
Margin loans	33,812,025	19,555,552
Payable for securities purchased	1,035,595	2,163,170
Accrued interest and dividends payable	776,747	987,601
Distributions payable	522,927	545,993
Other liabilities (note 8)	242,443	251,213
	283,662,312	428,588,054
<b>Net assets attributable to holders of redeemable units</b>	<b>\$121,510,416</b>	<b>\$124,767,252</b>
<b>Number of redeemable units outstanding (note 7)</b>	<b>13,073,167</b>	<b>13,649,828</b>
<b>Net assets attributable to holders of redeemable units per unit</b>	<b>\$9.29</b>	<b>\$9.14</b>

Approved on behalf of the Board of Directors of Arrow Capital Management Inc., the Manager of the Fund:

"James L. McGovern"

James L. McGovern, Director

"Robert W. Maxwell"

Robert W. Maxwell, Director

The accompanying notes are an integral part of these financial statements.

# EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Comprehensive Income (Loss)  
For the years ended December 31,

	2019 \$	2018 \$
<b>INCOME</b>		
Net gains (losses) on investments and derivatives:		
Interest for distribution purposes	14,185,160	14,389,238
Interest expense on derivatives	(323,737)	(460,863)
Interest expense on short sales	(5,092,409)	(5,888,256)
Dividend income	201,257	294,132
Dividend expense on short sales	-	(3,287)
Net realized gain (loss) on investments and derivatives	(2,875,761)	1,096,196
Net change in unrealized appreciation (depreciation) in value of investments and derivatives	6,167,669	(5,182,782)
Net gains (losses) on investments and derivatives	12,262,179	4,244,378
Other income items:		
Interest on cash	14,022	40,404
Foreign exchange gain (loss)	74,346	(235,173)
Net change in unrealized foreign exchange gain (loss)	587,793	(241,113)
<b>Total net income (loss)</b>	<b>12,938,340</b>	<b>3,808,496</b>
<b>EXPENSES</b>		
Unitholder reporting fees	254,525	197,636
Management fees (note 8)	1,545,452	1,369,762
Performance fees (note 8)	895,947	-
Interest expense on margin loan	337,773	172,205
Audit fees	31,876	32,717
Legal fees	400	9,352
Independent Review Committee fees	6,206	6,187
Custodial fees	38,422	39,022
Security borrowing expenses	1,122,020	1,168,953
Commissions and other portfolio transaction costs (note 9)	14,572	18,565
Harmonized sales tax	225,571	134,776
<b>Total expenses</b>	<b>4,472,764</b>	<b>3,149,175</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	<b>8,465,576</b>	<b>659,321</b>
<b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (note 11)</b>	<b>\$0.63</b>	<b>\$0.06</b>

The accompanying notes are an integral part of these financial statements.

# EAST COAST INVESTMENT GRADE INCOME FUND

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
For the years ended December 31,

	2019 \$	2018 \$
<b>Net assets attributable to holders of redeemable units at beginning of year</b>	124,767,252	84,450,106
<b>Increase (decrease) in net assets attributable to holders of redeemable units</b>	8,465,576	659,321
<b>Distributions to holders of redeemable units</b>		
From net investment income	(5,431,884)	-
From net realized gains on investments and derivatives	-	(3,661,499)
From return of capital	(958,568)	(1,971,577)
<b>Total distributions to holders of redeemable units</b>	(6,390,452)	(5,633,076)
<b>Redeemable units transactions</b>		
Proceeds from redeemable units issued	-	46,186,550
Issuance costs and agents' fees	-	(895,649)
Redemption of redeemable units	(5,331,960)	-
<b>Net increase (decrease) from redeemable units transactions</b>	(5,331,960)	45,290,901
<b>Net increase (decrease) in net assets attributable to holders of redeemable units</b>	(3,256,836)	40,317,146
<b>Net assets attributable to holders of redeemable units at end of year</b>	121,510,416	124,767,252

The accompanying notes are an integral part of these financial statements.

# EAST COAST INVESTMENT GRADE INCOME FUND

## Statements of Cash Flows For the years ended December 31,

	2019 \$	2018 \$
<b>Cash flows from (used in) operating activities</b>		
Increase (decrease) in net assets attributable to holders of redeemable units	8,465,576	659,321
Adjustment for:		
Unrealized foreign exchange (gain) loss on cash and cash equivalents	(68,913)	58,249
Net realized (gain) loss on investments and derivatives	2,875,761	(1,096,196)
Net change in unrealized (appreciation) depreciation in value of investments and derivatives	(6,167,669)	5,182,782
Purchase of investments	(3,185,048,346)	(3,145,048,143)
Proceeds on sale of investments	3,170,172,384	3,097,399,689
Change in accrued interest and dividends receivable	930,491	(666,543)
Change in accrued interest and dividends payable	(210,854)	291,676
Change in other liabilities	(8,770)	(381,120)
Change in margin deposits	3,091,616	(2,037,093)
Change in margin loans	14,256,473	10,704,100
Change in classification of short term notes	21,581,569	-
<b>Net cash from (used in) operating activities</b>	<b>29,869,318</b>	<b>(34,933,278)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from redeemable units issued	-	46,186,550
Issuance costs and agents' fee	-	(895,649)
Redemption of redeemable units	(5,331,960)	-
Distributions paid to holders of redeemable units, net of reinvested distributions	(6,413,518)	(5,531,801)
<b>Net cash from (used in) financing activities</b>	<b>(11,745,478)</b>	<b>39,759,100</b>
<b>Net Increase (decrease) in cash and cash equivalents</b>	<b>18,123,840</b>	<b>4,825,822</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>5,581,553</b>	<b>813,980</b>
Unrealized foreign exchange gain (loss) on cash and cash equivalents	68,913	(58,249)
<b>Cash and cash equivalents at end of the year</b>	<b>23,774,306</b>	<b>5,581,553</b>
<b>Supplemental information:</b>		
Interest received*	15,105,614	13,780,899
Dividends received, net of withholding tax*	225,316	276,332
Interest paid*	5,964,773	6,228,324
Dividends paid*	-	3,287
*Included as part of cash flows from operating activities		

The accompanying notes are an integral part of these financial statements.

# EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2019

## Equities - Long - 5.6%

Security Name	Currency	No. of Shares/Units	Average Cost (\$)	Fair Value (\$)
<b>Equities - 5.6%</b>				
Bank of Montreal, Preferred, Class 'B', Series '25', Variable Rate, Perpetual	CAD	61,500	1,336,922	1,491,375
Bank of Nova Scotia, Preferred, Series '30', Convertible, Callable	CAD	26,000	623,432	646,100
Bank of Nova Scotia, Preferred, Series '31', Floating Rate, Perpetual	CAD	83,500	2,026,250	2,082,908
Bank of Nova Scotia, Preferred, Series '32', Variable Rate, Convertible, Perpetual	CAD	61,600	1,460,904	1,520,904
Bank of Nova Scotia, Preferred, Series '33', Floating Rate, Perpetual	CAD	33,000	790,020	810,645
Enbridge Inc., Preferred, Series 'B', Variable Rate, Perpetual	CAD	12,800	232,445	187,520
Enbridge Inc., Preferred, Series 'L', Variable Rate, Perpetual	USD	2,738	86,659	67,553
			<b>6,556,632</b>	<b>6,807,005</b>

## Fixed Income - Long - 301.3%

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value \$	Average Cost (\$)	Fair Value (\$)
<b>Corporate Bonds - 301.2%</b>						
AltaGas Ltd., Callable	06-12-23	3.57	CAD	4,267,000	4,381,823	4,389,668
Anheuser-Busch InBev Finance Inc., Callable	01-25-23	3.38	CAD	7,594,000	7,798,128	7,805,489
Anheuser-Busch InBev Finance Inc., Callable	05-15-24	2.60	CAD	1,998,000	1,999,738	1,998,152
Artis REIT, Series 'B', Floating Rate	02-07-20	3.04	CAD	3,379,000	3,383,055	3,380,690
Artis REIT, Series 'C'	02-22-21	3.67	CAD	1,545,000	1,567,495	1,561,868
AT&T Inc., Callable	11-25-25	4.00	CAD	1,992,000	2,099,118	2,099,127
AT&T Inc., Callable	05-25-24	2.85	CAD	7,501,000	7,561,337	7,523,958
Bank of Montreal, Variable Rate, Callable	10-05-28	4.34	USD	1,694,000	2,349,161	2,322,448
Bank of Nova Scotia, Variable Rate, Callable	01-18-29	3.89	CAD	3,234,000	3,379,420	3,372,243
Bell Canada, Callable	09-11-23	4.70	CAD	11,296,000	12,210,945	12,115,848
BMW Canada Inc., Series 'V'	11-27-23	2.41	CAD	2,690,000	2,695,686	2,684,737
Brookfield Asset Management Inc., Callable	03-31-23	4.54	CAD	985,000	1,045,272	1,046,518
Brookfield Infrastructure Finance ULC, Callable	03-11-22	3.45	CAD	3,589,000	3,684,790	3,669,478
Brookfield Property Finance ULC	10-19-21	4.12	CAD	3,901,000	3,994,051	4,007,651
BRP Finance ULC, Callable	02-07-22	4.79	CAD	4,811,000	5,101,863	5,052,034
Canadian Imperial Bank of Commerce, Variable Rate, Callable	07-22-23	2.61	USD	5,419,000	7,159,184	7,117,970
Canadian Imperial Bank of Commerce, Variable Rate, Callable	04-04-28	3.45	CAD	6,562,000	6,719,938	6,731,022
Canadian Natural Resources Ltd.	02-11-22	3.31	CAD	988,000	987,302	987,130
Canadian Western Bank	03-14-22	2.83	CAD	3,386,000	3,415,719	3,418,554
Central 1 Credit Union, Series '16', Floating Rate	02-05-21	2.32	CAD	2,714,000	2,708,919	2,715,601
Choice Properties L.P., Series '10', Callable	09-20-22	3.60	CAD	4,223,000	4,266,037	4,335,321
Choice Properties L.P., Series '9', Callable	09-20-21	3.60	CAD	9,445,000	9,560,931	9,616,271
CI Financial Corp., Callable	07-20-23	3.52	CAD	1,981,000	2,029,524	2,016,141
CI Financial Corp., Callable	07-22-24	3.22	CAD	1,882,000	1,883,477	1,878,397
Citigroup Inc., Variable Rate, Callable	11-04-22	2.31	USD	3,941,000	5,155,468	5,134,896
Coast Capital Savings Credit Union, Floating Rate	02-28-20	2.62	CAD	5,394,000	5,394,633	5,392,382
Concentra Bank, Floating Rate	05-07-20	2.57	CAD	3,772,000	3,774,078	3,772,000
Crombie REIT	06-01-21	3.96	CAD	2,068,000	2,091,169	2,109,376
Crombie REIT, Series 'D', Callable	11-21-22	4.07	CAD	3,770,000	3,914,861	3,895,208
CU Inc., Callable	09-07-49	2.96	CAD	1,935,000	1,942,817	1,903,614
Daimler Canada Finance Inc.	08-16-22	3.30	CAD	2,130,000	2,175,551	2,171,097
Daimler Canada Finance Inc.	07-08-21	1.91	CAD	985,000	977,849	978,921
Daimler Canada Finance Inc.	12-16-21	2.23	CAD	582,000	579,835	580,095
Dream Office REIT, Series 'C'	01-21-20	4.07	CAD	3,059,000	3,065,118	3,060,883
Enbridge Inc., Callable	07-15-27	3.70	USD	1,941,000	2,698,528	2,671,944
Enbridge Inc., Callable	10-03-29	2.99	CAD	970,000	957,468	957,250
Enbridge Inc., Variable Rate, Callable	09-27-77	5.38	CAD	3,238,000	3,222,919	3,248,805
ENMAX Corp., Series '5'	10-18-22	2.92	CAD	2,967,000	2,967,000	2,996,840
Equitable Bank	04-16-21	3.20	CAD	2,999,000	3,025,541	3,022,720
Equitable Bank	09-26-22	2.95	CAD	1,793,000	1,796,618	1,800,806
Fairfax Financial Holdings Ltd.	03-22-23	4.50	CAD	5,886,000	6,257,541	6,186,068
Ford Credit Canada Co.	06-22-22	2.77	CAD	2,998,000	2,950,482	2,956,212
Ford Credit Canada Co.	05-10-21	2.58	CAD	3,293,000	3,272,481	3,278,417
Ford Credit Canada Co., Callable	09-16-20	2.92	CAD	2,606,000	2,610,703	2,610,798
Ford Credit Canada Co., Floating Rate	09-21-20	2.88	CAD	11,728,000	11,732,085	11,735,154
Ford Credit Canada Co., Floating Rate	01-10-22	5.00	CAD	771,000	795,680	795,672
Ford Credit Canada Co., Floating Rate, Restricted	12-01-20	2.65	CAD	1,549,000	1,545,202	1,547,265
Ford Credit Canada Ltd.	11-13-24	4.46	CAD	1,400,000	1,400,000	1,412,686
Ford Credit Canada Ltd.	05-07-20	2.45	CAD	857,000	855,943	856,902
General Motors Financial of Canada Ltd.	02-26-21	3.00	CAD	2,347,000	2,367,076	2,359,388
Gibson Energy Inc., Callable	07-15-24	5.25	CAD	6,559,000	6,962,159	6,927,791

# EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2019

Goldman Sachs Group Inc. (The), Floating Rate, Callable	07-27-22	2.52	CAD	5,392,000	5,399,069	5,402,191
Goldman Sachs Group Inc. (The), Variable Rate, Callable	04-26-23	2.43	CAD	15,314,000	15,134,860	15,297,870
HCN Canadian Holdings-1 L.P., Callable	01-15-27	2.95	CAD	995,000	993,915	996,104
Honda Canada Finance Inc.	07-15-22	2.27	CAD	3,957,000	3,945,446	3,954,814
HSBC Bank Canada	09-15-22	2.25	CAD	988,000	987,694	986,364
HSBC Holdings PLC	12-05-23	3.20	CAD	3,594,000	3,693,942	3,660,811
Inter Pipeline Ltd., Callable	04-18-24	2.73	CAD	1,638,000	1,643,960	1,634,721
Inter Pipeline Ltd., Callable	09-13-23	2.61	CAD	3,679,000	3,688,917	3,668,026
Inter Pipeline Ltd., Series '19-B', Variable Rate, Callable	11-19-79	6.63	CAD	2,404,000	2,405,502	2,426,654
Kraft Canada Inc., Floating Rate	07-06-20	3.02	CAD	2,160,000	2,171,168	2,168,921
Laurentian Bank of Canada	06-20-22	2.55	CAD	3,149,000	3,145,032	3,151,102
Laurentian Bank of Canada, Floating Rate	12-13-21	2.71	USD	4,006,000	5,280,108	5,212,499
Laurentian Bank of Canada, Floating Rate	02-01-21	2.97	CAD	2,560,000	2,560,000	2,569,984
Loblaw Cos. Ltd., Callable	09-12-23	4.86	CAD	1,248,000	1,345,874	1,342,536
Manitoba Telecom Services Inc., Callable	05-27-24	4.00	CAD	1,992,000	2,100,644	2,095,546
Merrill Lynch & Co. Inc., Variable Rate, Callable	05-30-22	2.89	CAD	27,319,000	27,321,034	27,321,732
Molson Coors International L.P., Callable	07-15-23	2.84	CAD	4,620,000	4,598,784	4,624,104
Morgan Stanley	08-05-21	3.13	CAD	805,000	819,777	816,081
Morgan Stanley, Floating Rate, Callable	10-15-21	2.35	CAD	7,651,000	7,640,153	7,662,553
Morguard Corp., Series 'B'	11-18-20	4.01	CAD	3,812,000	3,871,747	3,857,811
Morguard Corp., Series 'E', Callable	01-25-24	4.72	CAD	2,330,000	2,366,627	2,410,149
Morguard Corp., Series 'F', Restricted, Callable	11-27-24	4.20	CAD	2,420,000	2,420,669	2,430,045
National Australia Bank Ltd., Variable Rate, Callable	06-12-30	3.52	CAD	2,997,000	2,997,000	3,001,002
National Bank of Canada	03-04-24	2.98	CAD	2,351,000	2,395,857	2,397,717
National Bank of Canada	02-03-25	2.58	CAD	996,000	995,970	996,583
National Bank of Canada	07-12-24	2.55	CAD	3,605,000	3,622,226	3,609,640
Nissan Canada Inc., Class 'E'	03-05-21	2.61	CAD	8,418,000	8,431,297	8,435,869
Pembina Pipeline Corp., Callable	01-22-24	2.99	CAD	2,108,000	2,135,003	2,136,749
Royal Bank of Canada, Variable Rate, Callable	12-23-29	2.88	CAD	996,000	995,910	996,590
Sienna Senior Living Inc., Series 'A', Restricted, Callable	11-04-24	3.11	CAD	2,367,000	2,368,249	2,384,832
SmartCentres REIT, Series 'Q'	03-21-22	2.88	CAD	2,429,000	2,462,260	2,452,524
SmartCentres REIT, Series 'T'	06-23-21	2.76	CAD	5,067,000	5,070,434	5,100,302
SmartCentres REIT, Series 'U', Callable	12-20-29	3.53	CAD	847,000	847,000	853,190
Sun Life Financial Inc., Variable Rate, Callable	09-19-28	3.05	CAD	598,000	611,395	609,340
Sysco Canada Inc., Callable	04-25-25	3.65	CAD	4,828,000	5,046,912	5,027,124
TD Capital Trust IV, Series '2', Variable Rate, Callable	06-30-08	10.00	CAD	3,254,000	3,788,309	3,736,483
TELUS Communications Inc., Series '3'	06-19-21	10.65	CAD	178,000	206,279	198,564
TELUS Corp., Callable	01-17-25	3.75	CAD	27,000	28,204	28,292
TELUS Corp., Series 'CAB', Callable	02-16-50	3.95	CAD	1,494,000	1,484,082	1,488,021
TELUS Corp., Series 'CY', Callable	05-02-29	3.30	CAD	2,106,000	2,142,781	2,137,340
TMX Group Ltd., Callable	10-03-23	4.46	CAD	700,000	748,440	748,253
TransCanada Pipelines Ltd., Series 'U'	11-20-20	11.80	CAD	2,461,000	2,729,499	2,660,717
Ventas Canada Finance Ltd., Callable	02-01-22	3.30	CAD	2,193,000	2,229,272	2,229,728
Ventas Canada Finance Ltd., Series 'D', Callable	03-15-23	2.55	CAD	970,000	968,885	968,812
Ventas Canada Finance Ltd., Series 'F', Floating Rate	11-12-21	2.51	CAD	1,940,000	1,940,000	1,945,917
VW Credit Canada Inc.	03-29-21	2.90	CAD	2,191,000	2,205,066	2,205,461
VW Credit Canada Inc.	06-27-22	2.65	CAD	1,407,000	1,406,240	1,410,350
VW Credit Canada Inc., Floating Rate	11-13-20	2.60	CAD	2,417,000	2,417,000	2,424,203
VW Credit Canada Inc., Floating Rate	09-27-21	2.74	CAD	2,855,000	2,855,752	2,869,132
Wells Fargo & Co., Variable Rate, Callable	10-30-25	2.41	USD	3,939,000	5,155,653	5,123,290
Wells Fargo Bank NA, Floating Rate, Callable	09-09-22	2.58	USD	6,050,000	8,006,471	7,900,577
					366,298,086	365,976,726
<b>Federal Bonds - 0.1%</b>						
Government of Canada	06-01-37	5.00	CAD	76	116	113
Government of Canada	12-01-45	3.50	CAD	10,000	14,113	13,571
Government of Canada	06-01-26	1.50	CAD	56,000	55,531	55,361
					69,760	69,045
					<b>366,367,846</b>	<b>366,045,771</b>

## Fixed Income - Short - (202.9%)

Security Name	Maturity Date	Coupon Rate (%)	Currency	Par Value \$	Average Cost (\$)	Fair Value (\$)
<b>Corporate Bonds - (12.0%)</b>						
Enbridge Inc., Callable	06-08-27	3.20	CAD	(1,935,000)	(1,971,033)	(1,969,575)
Ford Motor Credit Co. LLC, Callable	11-01-24	4.06	USD	(1,999,000)	(2,674,135)	(2,652,081)
Hydro One Inc., Callable	06-25-49	3.63	CAD	(1,935,000)	(2,193,826)	(2,149,000)
Pembina Pipeline Corp., Callable	04-30-43	4.75	CAD	(1,053,000)	(1,152,603)	(1,155,012)

# EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2019

Royal Bank of Canada, Variable Rate, Callable	07-25-29	2.74	CAD	(2,000,000)	(2,001,520)	(1,993,592)
Toronto-Dominion Bank (The), Floating Rate, Callable	01-26-32	3.06	CAD	(1,599,000)	(1,609,545)	(1,602,521)
Walt Disney Co. (The)	10-07-24	2.76	CAD	(2,968,000)	(3,063,151)	(3,034,652)
					<u>(14,665,813)</u>	<u>(14,556,433)</u>
<b>Federal Bonds - (189.2%)</b>						
Government of Canada	09-01-24	1.50	CAD	(8,085,000)	(8,044,834)	(8,019,377)
Government of Canada	03-01-24	2.25	CAD	(6,893,000)	(7,115,813)	(7,048,453)
Government of Canada	06-01-22	2.75	CAD	(29,039,000)	(30,001,833)	(29,764,375)
Government of Canada	06-01-21	3.25	CAD	(10,316,020)	(10,640,045)	(10,533,723)
Government of Canada	06-01-23	1.50	CAD	(43,804,400)	(43,789,604)	(43,553,076)
Government of Canada	06-01-24	2.50	CAD	(12,089,000)	(12,590,758)	(12,507,637)
Government of Canada	06-01-27	1.00	CAD	(4,641,000)	(4,432,899)	(4,409,930)
Government of Canada	09-01-22	1.00	CAD	(10,550,000)	(10,390,306)	(10,362,689)
Government of Canada	06-01-28	2.00	CAD	(2,364,000)	(2,447,861)	(2,416,044)
Government of Canada	09-01-23	2.00	CAD	(15,144,000)	(15,445,728)	(15,311,877)
Government of Canada	02-01-21	2.25	CAD	(5,081,000)	(5,122,520)	(5,108,479)
Government of Canada	06-01-25	2.25	CAD	(5,488,000)	(5,679,696)	(5,649,297)
Government of Canada	12-01-48	2.75	CAD	(284,000)	(350,705)	(347,358)
Government of Canada	06-01-29	2.25	CAD	(14,537,000)	(15,244,104)	(15,232,817)
Government of Canada	03-01-23	1.75	CAD	(903,000)	(908,241)	(904,882)
Government of Canada	03-01-22	0.50	CAD	(25,894,000)	(25,201,055)	(25,242,325)
Government of Canada	09-01-21	0.75	CAD	(12,641,000)	(12,324,748)	(12,445,253)
Government of Canada	03-01-21	0.75	CAD	(14,799,000)	(14,576,198)	(14,631,229)
United States Treasury Bond	11-15-22	1.63	USD	(4,911,000)	(6,536,790)	(6,382,784)
					<u>(230,843,738)</u>	<u>(229,871,605)</u>
<b>Provincial Bonds - (1.7%)</b>						
Province of Ontario	06-02-29	2.70	CAD	(1,991,000)	(2,083,696)	(2,058,334)
					<u>(2,083,696)</u>	<u>(2,058,334)</u>
					<u><b>(247,593,247)</b></u>	<u><b>(246,486,372)</b></u>
Commissions						<u>(62)</u>
<b>Total Investments - 104.0%</b>					<b>125,331,169</b>	<b>126,366,404</b>
<b>Derivatives (see schedule of derivative instruments) - (0.6%)</b>						<b>(737,716)</b>
<b>Cash and Other Net Assets (Liabilities) - (3.4%)</b>						<u><b>(4,118,272)</b></u>
<b>Net Assets Attributable to Holders of Redeemable Units - 100.0%</b>						<u><b>121,510,416</b></u>



# EAST COAST INVESTMENT GRADE INCOME FUND

Schedule of Investment Portfolio – As at December 31, 2019

## SCHEDULE OF DERIVATIVE INSTRUMENTS

### Futures Contracts - Long - (0.2%)

Security Name	Contract Size	Expiry Date	Currency	No. of Contracts	Notional Value (\$)	Unrealized Gain/(Loss) (\$)
<b>Bond Futures - (0.2%)</b>						
Canada 10 Year Bond Futures	1,000	03-20-20	CAD	128	17,588,480	(206,800)
<b>Currency Futures - 0.0%</b>						
Canadian Currency Futures	1,000	03-17-20	USD	5	500,494	6,233
						<u>(200,567)</u>

### Futures Contracts - Short - 0.0%

Security Name	Contract Size	Expiry Date	Currency	No. of Contracts	Notional Value (\$)	Unrealized Gain/(Loss) (\$)
<b>Bond Futures - 0.0%</b>						
US 10 Year Treasury Notes Futures	1,000	03-20-20	USD	(16)	(2,668,196)	23,699
US 2 Year Treasury Notes Futures	2,000	03-31-20	USD	(17)	(4,757,238)	2,932
US 5 Year Treasury Notes Futures	1,000	03-31-20	USD	(28)	(4,312,566)	15,623
						<u>42,254</u>

### Swaps - (0.5%)

Security Name	Currency	Notional Value (\$)	Average Cost (\$)	Unrealized Gain/(Loss) (\$)	
BP CDS Republic of Korea 12/20/2022	Credit Default Swap	USD	1,500,000	(25,546)	(50,469)
BP CDS Enbridge 100 12/20/2020	Credit Default Swap	USD	1,000,000	(10,288)	(10,978)
BP CDS Markit CDX.NA.IG.S33-5Y 100 12/20/2024	Credit Default Swap	USD	15,381,275	(529,925)	(517,956)
				<u>(565,759)</u>	<u>(579,403)</u>

<b>Total Derivative Instruments at Fair Value</b>					<b>\$(565,759)</b>	<b>\$(737,716)</b>
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# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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### 1. GENERAL INFORMATION

East Coast Investment Grade Income Fund (the "Fund") was formed as a closed-end investment trust created pursuant to a trust indenture dated April 26, 2012. The trust indenture was last amended on April 17, 2017.

The Fund completed its initial public offering ("IPO") and commenced operations on May 18, 2012.

Effective January 3, 2019, the Canadian Securities Administrators (the "CSA") put into force new rules regulating non-redeemable investment funds. The Rules contain transitional rules that exempt the Fund from certain portions of Part 2 of NI 81-102 relating to permitted investments, which will allow the Fund to continue to operate as it has for the past seven years. Absent exemptive relief from the CSA, if the Manager decides to renew the short form base shelf prospectus of the Fund dated April 25, 2017 certain operational changes to the Fund will have to be made to comply with the Rules.

The Fund's investment objectives are to maximize total returns to unitholders while reducing risk; and to provide unitholders with attractive monthly cash distributions.

The Fund will seek to achieve these investment objectives by investing in a diversified portfolio comprised primarily of investment grade debt securities (both long and short positions) of Canadian corporate and government issuers.

The Manager of the Fund is Arrow Capital Management Inc. (the "Manager"). East Coast Fund Management Inc. (the "Portfolio Advisor"), is the portfolio advisor of the Fund.

The Fund's units are listed on the Toronto Stock Exchange and trade under the symbol ECF.UN. The closing market price on December 31, 2019 was \$9.03 (2018: \$9.00).

The address of the Fund's registered office is 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5.

The Statements of Financial Position of the Fund are as at December 31, 2019 and December 31, 2018. The Statements of Comprehensive Income, Statements of Changes in Net Assets Attributable to Holders of Redeemable Units and Statements of Cash Flows for the Fund are for the years ended December 31, 2019 and 2018. The Schedule of Investment Portfolio for the Fund is as at December 31, 2019.

These financial statements were authorized for issue by management on March 24, 2020.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### 2.1 Basis of Accounting

These audited financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities that have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgement in its process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS.

#### 2.2 Foreign Currency Translation

The Fund's functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as 'Foreign exchange gain (loss)' and 'Net change in unrealized foreign exchange gain (loss)' and those relating to other investments and derivatives are presented within 'Net realized gain (loss) on investments and derivatives' and 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss).

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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### 2.3 Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

Financial instruments include financial assets and liabilities such as debt and equity securities, open-ended investment funds and derivatives. The Fund classifies and measures financial instruments in accordance with IFRS 9 Financial Instruments ("IFRS 9").

#### a) Classification

##### *Assets*

The Fund classifies investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and use that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as Fair Value Through Other Comprehensive Income ("FVOCI"). The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at Fair Value Through Profit or Loss ("FVTPL").

##### *Liabilities*

The Fund may make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are consistently classified as financial liabilities at FVTPL. Derivative contracts that have a negative fair value are presented as liabilities at FVTPL. As such, the Fund classifies all of its investment portfolio as financial assets or liabilities as FVTPL.

The Fund's policy requires the Manager and the Board of Directors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

#### b) Recognition, Derecognition and Measurement

Regular purchases and sales of financial assets are recognized in the Statements of Financial Position at their trade date – the date on which the Fund commit to purchase or sell the investment. Financial assets and financial liabilities at FVTPL are initially recognized at fair value. Transaction costs are expensed as incurred.

All financial instruments are recognized in the Statements of Financial Position when the Fund becomes a party to the contractual requirements of the instrument.

Financial assets are derecognized when the right to receive cash flows from the instrument has expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation is discharged, cancelled or expires.

Subsequent to initial recognition, all financial assets and financial liabilities at FVTPL are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at FVTPL category are recognized in the Statements of Comprehensive Income (Loss) in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives'.

The Fund's accounting policies for measuring the fair value of their investments and derivatives are the same as those used in measuring its net asset value ("NAV") for transactions with unitholders. There were no differences between the net assets attributable to holders of redeemable units used for reporting purposes under IFRS and that used for transactions with unitholders as at December 31, 2019 or 2018.

Realized gains and losses on sale of investments and unrealized appreciation or depreciation in investments are determined on an average cost basis excluding commissions and other portfolio transaction costs, which are separately reported in the Statements of Comprehensive Income (Loss) in 'Commissions and other portfolio transaction costs'. Realized gains and losses on securities sold short and unrealized appreciation or depreciation on securities sold short are calculated with reference to the average proceeds of the related securities. Average cost does not include amortization of premiums or discounts on fixed income securities.

Interest for distribution purposes shown on the Statements of Comprehensive Income (Loss) represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums or discounts received on the purchase of fixed income securities.

Dividend income and dividend expense on short sales are recognized in the Statements of Comprehensive Income (Loss) on the ex-dividend date. Distributions received from investment trust units are recorded as dividends, interest for distribution purposes, net realized gains (losses) on sale of

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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investments or a return of capital, based on the best information available to the Manager. Due to the nature of those investments, actual allocations could vary from this information.

### **c) Financial Instruments - Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for securities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The fair value of bonds is determined using mid-market pricing derived from bid and ask prices provided by independent security pricing services or recognized investment dealers. The fair value of futures contracts is based on the settlement price assigned by the exchange. Gains and losses arising from changes in the fair value of financial assets or liabilities are presented in the Statements of Comprehensive Income (Loss). The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels at the beginning of each period.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and make assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same and other commonly used methods by market participants which make the maximum use of observable inputs.

### **d) Options**

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. Options held by the Fund are exchange-traded. Subsequent to initial recognition, changes in fair value, the difference between the premium paid or received, and fair value, are presented in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss). When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognized as a gain or loss and is presented in the Statements of Comprehensive Income (Loss) within 'Net realized gain (loss) on investments and derivatives'.

### **e) Forward Currency Contracts**

The Fund may enter into forward currency contracts for purposes of minimizing currency exposure or to establish an exposure to a particular currency. The value of forward currency contracts entered into by the Fund is recorded as the difference between the contract rate and the current forward rates at the measurement date, applied to the contract's notional amount and adjusted for counterparty risk. The change in the fair value of forward currency contracts is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss). Upon closing of a contract, the gain or loss is included in 'Net realized gain (loss) on investments and derivatives' in the Statements of Comprehensive Income (Loss).

### **f) Futures Contracts**

The Fund may purchase or sell exchange traded futures contracts. Futures contracts are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price established in an organized market. Subsequent to initial recognition, changes in fair value are presented in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss). When futures contracts are closed out, the gain or loss is presented in the Statements of Comprehensive Income (Loss) within 'Net realized gain (loss) on investments and derivatives'.

### **g) Credit Default Swap Contracts**

A credit default swap contract is an agreement to transfer credit risk from one party, a buyer of protection, to another party, a seller of protection. The Fund as a seller of protection would be required to pay a notional or other agreed upon value to the buyer of protection in the event of a default by a third party. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs. If no default occurs, the Fund would keep the stream of payments and would have no payment obligations.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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The Fund as a buyer of protection would receive a notional or other agreed upon value from the seller of protection in the event of a default by a third party. In return, the Fund would be required to pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default occurs.

Premiums received or paid for entering into a credit default swap are included in the Statements of Financial Position as either an asset or liability. Credit default swap contracts are fair valued on each valuation day based upon quotations from independent security pricing sources. The change in the difference between the premium and the fair value is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss). Upon closing or expiry of a contract, the gain or loss is included in 'Net realized gain (loss) on investments and derivatives' in the Statements of Comprehensive Income (Loss).

### **h) Interest Rate Swap Contracts**

An interest swap contract is a contractual agreement entered into between the Fund and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as a realized gain or loss on investments. Interest rate swap contracts are fair valued on each valuation day using indicative bid/ask prices from third party broker dealers. The change in fair value is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss). Upon closing or expiry of a contract, the gain or loss is included in 'Net realized gain (loss) on investments and derivatives' in the Statements of Comprehensive Income (Loss).

### **i) Investments in Structured Entities**

The Fund may invest in underlying investment vehicles ("Structured Investments") that are managed by their respective Investment Advisors and whose investment objectives may range from achieving short-term to long-term income and capital growth. Structured Investments may use leverage in a manner consistent with their respective objectives and as permitted by their respective governing regulatory authorities. Structured Investments finance their operations by issuing redeemable units which are puttable at the holder's option and entitles the holder to a proportionate stake in the respective fund's net assets. The Fund's interest in Structured Investments as at December 31, 2019 and 2018, if any, held the form of redeemable units, which are included at their fair value in the Statements of Financial Position which represents the Fund's maximum exposure in these Structured Investments. The Fund does not provide, and has not committed to provide, any additional significant financial or other support to the Structured Investments. The change in fair value of each of the Structured Investments during the periods is included in 'Net change in unrealized appreciation (depreciation) in value of investments and derivatives' in the Statements of Comprehensive Income (Loss) in 'Net gains (losses) on investments and derivatives'.

## **2.4 Offsetting Financial Statements**

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, the Fund enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the Statements of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts.

## **2.5 Due from and to Brokers**

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the Statements of Financial Position date respectively. The due from brokers balance is held for collection. These amounts are recognized initially at fair value and subsequently measured at amortized cost. Amounts due from brokers are presented in "Receivables for securities sold" and amounts due to brokers are presented in "Payable for securities purchased" in the Statements of Financial Position.

## **2.6 Cash and Cash Equivalents**

Cash and cash equivalents, which includes cash deposited with financial institutions and short-term investments that are readily convertible to cash, are subject to an insignificant risk of changes in value, and are used by the Fund in the management of short-term commitments. Cash and cash equivalents are reported at fair value which closely approximates their amortized cost due to their nature of being highly liquid and having short terms to maturity.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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### 2.7 Margin Deposits

Cash collateral provided by the Fund to brokers for securities sold short and counterparties to derivative transactions is identified in that Fund's Statements of Financial Position as 'Margin Deposits'.

### 2.8 Margin Loans

Margin loans represent cash amounts borrowed under a margin agreement with the Fund's prime broker. The Fund has granted a first priority security interest over investments and other assets held at the prime broker in support of its obligations under its margin lending agreement. Amounts owing are payable upon demand (if applicable), which is identified in the Statements of Financial Position as 'Margin Loans'.

### 2.9 Commissions and Other Portfolio Transaction Costs

Commissions and other portfolio transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers. Such costs are expensed when incurred.

### 2.10 Income and Expense Allocation

The net assets of each class are computed by calculating the value of that class' proportionate share of the Fund's assets less that class' proportionate share of the Fund's common liabilities less class specific liabilities, if any. Expenses directly attributable to a class are charged to that class. Other income, expenses and gains/losses are allocated based on a reasonable allocation methodology which will include allocations based upon the assets of the Fund or the number of unitholders in the Fund or other methodology the Manager determines is fair.

### 2.11 Securities Lending Income

The Fund may enter into securities lending arrangements. These transactions involve the temporary exchange of securities for collateral with a commitment to deliver the same securities at a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income earned from these transactions is included in 'Securities lending income (net)' in the Statements of Comprehensive Income (Loss).

### 2.12 Increase (Decrease) in Net Assets Attributable to Holders of Redeemable Units per Unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to the class by the weighted average number of units outstanding in that class during the period. Refer to Note 11 for the calculation.

### 2.13 Classification of Redeemable Units issued by the Fund

The Fund's redeemable units are multi-series and contain multiple dissimilar contractual obligations and therefore meet the criteria for classification as financial liabilities under IAS 32, *Financial Instruments: Presentation*. The Fund's obligation for net assets attributable to unitholders is presented at the redemption amount.

### 2.14 Impairment Policy

At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganization, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due or a counterparty rating which has fallen below BBB/Baa. Any contractual payment which is more than 90 days past due is considered credit impaired.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting estimates and judgments that the Fund has made in preparing the financial statements:

#### Use of Estimates

##### *Fair Value measurement of derivatives and securities not quoted in an active market*

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair value of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 5: FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT for further information about the fair value measurement of the Fund's financial instruments.

#### Use of Judgments

##### *Classification and Measurement of Investments and Application of the Fair Value Option*

In classifying and measuring financial instruments held by the Funds, the Manager is required to make significant judgments in order to determine the most appropriate classification in accordance with IFRS 9. The Manager has assessed the Fund's business model, the manner in which all financial instruments are managed and performance evaluated as a group on a fair value basis, and concluded that FVTPL in accordance with IFRS 9 provides the most appropriate measurement and presentation of the Fund's financial statements.

##### *Assessment as Investment Entity*

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The Fund meets the definition of investment entity as it obtains funds from one or more investors for the purpose of providing those investors with professional investment management services and commit to their investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both. The Fund measures and evaluates the performance of substantially all of its investments on a fair value basis.

##### *Determination if Underlying Funds Meet the Structured Entity Definition*

The Fund has concluded that its investments in the Underlying Funds are investments in unconsolidated structured entities. This represents a significant judgment by the Fund that is based generally on the fact that the decision making about the Underlying Funds investing activities is not governed by voting rights held by the Fund and other investors.

### 4. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Fund's investment objectives are to maximize total returns to unitholders while reducing risk; and to provide unitholders with attractive monthly cash distributions. The Fund will seek to achieve these investment objectives by investing in a diversified portfolio comprised primarily of investment grade debt securities (both long and short positions) of Canadian corporate and government issuers.

#### Risk Management

In the normal course of business, the Fund's activities expose it to a variety of risks associated with financial instruments: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk), concentration risk and capital risk.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments present a risk of loss of capital. The maximum loss of capital on long equity, options, interest rate swaps, credit default swaps and debt securities is limited to the fair value of those positions. The maximum loss on equities, options and debt sold short can be unlimited and the maximum loss on futures contracts is the notional contract value of those positions.

The management of these risks is carried out by the Manager and Investment Advisor in accordance with the Declaration of Trust.

The Fund's use of leverage and borrowings can increase the Fund's exposure to these risks, which in turn can also increase the potential returns the Fund can achieve. The Investment Advisor uses leverage against assets with satisfactory liquidity characteristics in order to increase return on capital subject to market conditions.

The Manager seeks to minimize potential adverse effects of financial instruments risks on the Fund's performance by employing professional managers and experienced portfolio advisors to monitor the Fund's positions and market events, diversifying the investment portfolio within the constraints of the investment objectives of the Fund, and periodically may use derivatives to hedge certain risk exposures.

### Credit Risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities.

The Fund's policy to manage this risk is to not 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 United States of America or a province, state or territory thereof; to not invest more than 12.5% of its net assets in non-investment grade securities and to not invest more than 10% of its net assets in illiquid assets.

The analysis below summarizes the credit quality of the Fund's debt portfolio at December 31, 2019 and 2018.

Credit Rating*	Percentage of total debt securities	
	December 31, 2019	December 31, 2018
	%	%
AAA	-	-
AA	2.4	18.1
A	29.3	16.4
BBB	58.6	46.1
Below BBB	9.7	-
Not Rated	-	19.4
Total	100.0	100.0

\* Credit ratings are obtained from Standard & Poor's, Moody's and / or Dominion Bond Rating Service.

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management considers the probability of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12 month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Fund has provided the broker with a general lien over assets held in return for services including borrowed securities and derivatives trading. The terms and conditions associated with collateral have no significant unusual requirements from the usual practice of recourse when a default occurs. Therefore, the Fund is also exposed to credit risk of the broker.

The Fund is exposed to counterparty credit risk on cash and cash equivalents, cash collateral, margin deposits, swaps, futures contracts, receivable for securities sold, and other receivable balances. The Fund's brokerage agreements require cash collateral in return for services including borrowed securities and derivatives trading. The counterparties to the Fund's swaps are Bank of America, JP Morgan Chase & Co. and Goldman, Sachs & Co. which have credit rating as rated by Moody's bond rating services of A2, A2, and A3 respectively (2018: A3, A2, and A3 respectively). The counterparty to the Fund's futures contracts is Bank of America which has a credit rating of A2 (2018: A3) as rated by Moody's bond rating services. The Fund's



# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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broker and custodian services are provided by CIBC Mellon, TD Securities, Bank of Montreal, The Bank of Nova Scotia, and CIBC World Markets which have credit ratings as rated by Moody's bond rating services of A1, Aa1, Aa2, Aa2, and Aa2 respectively (2018: A1, Aa1, Aa2, Aa2, and Aa2, respectively).

The Fund's maximum exposure to counterparty risk is the carrying value of its swaps, futures contracts, cash and cash equivalents, margin deposits, and other receivable balances.

The Fund is exposed to credit risk on cash deposits held at CIBC Mellon Trust Company which has a credit rating as rated by Moody's bond rating services of A1 (2018: A1).

The Fund may also participate in securities lending up to a maximum of 50% of the aggregate net asset value of the Fund, excluding the collateral held in respect to such loans, and is exposed to counterparty risk on all such loans, if any. The credit risk related to the securities lending program is limited as the Fund holds a minimum collateral equal to 102% of the fair value of the loaned securities. The collateral and loaned securities are marked to market on each valuation date.

There are also risks involved in dealing with custodians or brokers who settle trades with regard to the segregation of assets. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Fund. Therefore, the Fund should not be exposed to credit risk with respect to such parties. However, it may not always be possible to achieve this segregation, so the portfolio of the Fund may experience increased exposure to credit risk associated with the applicable custodians or brokers.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The credit risk related to the associated receivables is considered limited, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

### **Liquidity Risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to annual and monthly cash redemptions of redeemable units. Annual redemptions are payable on demand at the holder's option before the 15th business day of the month following the Annual Redemption Date while monthly redemptions are payable on demand at the holder's option or before the last business day of the following month.

The Fund aims to retain sufficient cash to maintain adequate liquidity including coverage of obligations related to all current liabilities payable (liabilities are typically due within three months except for monthly distributions which are payable monthly).

From time to time, the Fund may use margin borrowings in one or more of its brokerage accounts. During the year ended December 31, 2019, the minimum margin borrowings used was \$9,280,829 (2018: \$6,254,057) and the maximum net margin borrowings used was \$41,561,113 (2018: \$22,518,796).

### **Market Risk**

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk can be further sub-divided into 3 categories: currency risk, interest rate risk and price risk.

The following include sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

#### **(a) Currency Risk**

The Fund invests in financial instruments and enters into transactions that are denominated in currencies other than the Canadian dollar, primarily US dollars (USD). Consequently, the Fund was exposed to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

# EAST COAST INVESTMENT GRADE INCOME FUND

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For the years ended December 31, 2019 and December 31, 2018

Prior to the settlement of the Forward Agreement, the Underlying Fund invested in financial instruments and entered into transactions that are denominated in currencies other than the Canadian dollar, primarily US dollars (USD). Consequently, the Fund is indirectly exposed to currency risk to the extent of the Fund's Underlying Fund Exposure.

The table below indicates the Fund's exposure to foreign currencies as at December 31, 2019 and 2018, in Canadian dollar terms. The table below also illustrates the potential impact on the net assets attributable to holders of redeemable units if the Canadian dollar had strengthened or weakened by 10% in relation to foreign currencies, with all other variables held constant. Non-monetary is comprised of long and short equities. Monetary includes cash, derivatives, fixed income securities, and other current receivables and payables.

December 31, 2019	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
Currency	\$	\$	\$	\$	\$	\$
United States Dollar - Long	36,101,131	67,553	36,168,684	3,610,113	6,755	3,616,868
United States Dollar - Short	(35,496,084)	-	(35,496,084)	(3,549,608)	-	(3,549,608)
<b>Total</b>	<b>605,047</b>	<b>67,553</b>	<b>672,600</b>	<b>60,505</b>	<b>6,755</b>	<b>67,260</b>
% of net assets attributable to holders of redeemable units	0.5%	0.1%	0.6%	0.1%	0.0%	0.1%

December 31, 2018	Exposure			Impact on net assets attributable to holders of redeemable units		
	Monetary	Non-Monetary	Total	Monetary	Non-Monetary	Total
Currency	\$	\$	\$	\$	\$	\$
United States Dollar - Long	18,805,437	71,619	18,877,056	1,880,544	7,162	1,887,706
United States Dollar - Short	(18,630,680)	-	(18,630,680)	(1,863,068)	-	(1,863,068)
<b>Total</b>	<b>174,757</b>	<b>71,619</b>	<b>246,376</b>	<b>17,476</b>	<b>7,162</b>	<b>24,638</b>
% of net assets attributable to holders of redeemable units	0.1%	0.1%	0.2%	0.0%	0.0%	0.0%

### (b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at December 31, 2019 the Fund holds securities with fixed interest rates that expose the Fund to fair value interest rate risk. The Portfolio Advisor manages this risk by short selling primarily government bonds to reduce the interest rate risk inherent in the Fund's corporate investment grade debt positions.

The table below summarizes the Fund's exposure to interest rate risk as at December 31, 2019 and 2018. The table also illustrates the potential impact, or sensitivity, on the net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 1.0%, assuming a parallel shift in the yield curve with all other variables held constant.

Term to Maturity	Long Exposure		Short Exposure	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Less than 1 year	\$ 43,467,726	\$ 157,182,888	\$ -	\$ (31,948,486)
1-3 years	159,269,300	220,038,387	(119,228,095)	(202,351,788)
3-5 years	112,513,234	72,787,975	(93,032,035)	(50,034,415)
Greater than 5 years	68,383,991	185,139,232	(45,964,242)	(127,947,876)
<b>Total</b>	<b>\$ 383,634,251</b>	<b>\$ 635,148,482</b>	<b>\$ (258,224,372)</b>	<b>\$ (412,282,565)</b>
Sensitivity:				
Total \$ sensitivity	+/- \$ 13,244,077	+/- \$ 22,028,730	+/- \$ 9,401,368	+/- \$ 15,692,473
Total % sensitivity	10.9%	17.7%	7.7%	12.6%

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

### (c) Price Risk

The Fund is exposed to price risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Fund's investments are subject to the risk of changes in the prices of bonds, options and futures contracts.

The Fund's policy is to manage price risk through diversification and selection of investments within specified limits established by the investment restrictions within the Declaration of Trust. The Fund will not have total exposure exceeding 400% determined on a daily mark-to-market basis; will not have net long exposure exceeding 300% determined on a daily mark-to-market basis and also will not have net short exposure exceeding 150% determined on a daily mark-to-market basis. The Fund's investment restrictions also limits investments in any single issuer to 10% of the Fund's net assets (as determined at the time of purchase), limits investments in non-investment grade debt securities to no more than 12.5% of the Fund's net assets and limits investments in illiquid assets to no more than 10% of its net assets. The Fund generally invests in bonds that have observable market prices that are quoted by multiple dealers.

As at December 31, 2019, if the Fund's relevant benchmark index, FTSE TMX Canada Universe Bond Index, had increased or decreased by 10%, with all other variables constant, the net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$1,579,635 (2018: \$1,621,974) representing 1.3% of net assets attributable to holders of redeemable units (2018: 1.3%).

The Fund engages in short selling activities, wherein it borrows securities and sells them to third parties. Until the Fund covers its short sales, it is exposed to market risk to the extent that subsequent market fluctuations may require purchasing securities sold, not yet purchased, at prices which may be significantly higher than the fair value reflected in the financial statements.

Market Segment	December 31, 2019		December 31, 2018	
	Long (%)	Short (%)	Long (%)	Short (%)
Equities	5.6	-	7.3	-
Corporate Bonds	301.3	(12.0)	417.6	(8.6)
Federal Bonds	0.1	(189.2)	0.0	(315.6)
Provincial Bonds	-	(1.7)	-	-
Derivatives	(0.2)	(0.5)	2.9	(0.5)
Totals	306.8	(203.4)	427.8	(324.7)

### 5. FINANCIAL INSTRUMENTS – FAIR VALUE MEASUREMENT

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are unobservable for the asset or liability.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2019 and 2018.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

December 31, 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Equities long	6,807,005	-	-	6,807,005
Fixed income long	-	366,045,771	-	366,045,771
Derivatives	48,487	-	-	48,487
<b>Total</b>	<b>6,855,492</b>	<b>366,045,771</b>	<b>-</b>	<b>372,901,263</b>
<b>Financial liabilities</b>				
Equities sold short	-	-	-	-
Fixed income short	-	(246,486,372)	-	(246,486,372)
Derivatives	(206,800)	(579,403)	-	(786,203)
<b>Total</b>	<b>(206,800)</b>	<b>(247,065,775)</b>	<b>-</b>	<b>(247,272,575)</b>

December 31, 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Equities long	9,049,081	-	39,100	9,088,181
Fixed income long	-	521,048,942	-	521,048,942
Derivatives	3,656,077	-	-	3,656,077
<b>Total</b>	<b>12,705,158</b>	<b>521,048,942</b>	<b>39,100</b>	<b>533,793,200</b>
<b>Financial liabilities</b>				
Equities sold short	-	-	-	-
Fixed income short	-	(404,468,928)	-	(404,468,928)
Derivatives	(343,561)	(272,036)	-	(615,597)
<b>Total</b>	<b>(343,561)</b>	<b>(404,740,964)</b>	<b>-</b>	<b>(405,084,525)</b>

All fair value measurements above are recurring. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it would be classified as Level 3.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. This includes private and illiquid securities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Manager has used its best judgment to derive the fair value.

The following table presents the movement in Level 3 instruments for the years ended December 31, 2019 and 2018 by class of financial instrument:

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

	Equities	
	December 31, 2019	December 31, 2018
	\$	\$
<b>Opening balance</b>	39,100	39,100
Net purchases and sales	-	-
Net transfers in (out)	-	-
Realized gain (loss)	(39,100)	-
Unrealized gain (loss)	-	-
<b>Closing balance</b>	-	39,100

There were no transfers between Level 1 and Level 2 during the year ended December 31, 2019, (2018; \$nil)

### a) Equities

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

December 31, 2018

Security Name	Currency	Quantity	Average Cost	Fair Value
			\$	\$
Trident Exploration Corp.	CAD	133,963	39,100	39,100

The Fund values these instruments based on cost as there is lack of market data throughout the year. The Fund also considers other liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

### b) Bonds

The Fund's bond portfolio is comprised primarily of investment grade Canadian bonds and also includes government bonds. Bond pricing is obtained from bid and ask prices provided by independent security pricing services or recognized investment dealers. Bond prices may be derived by using models which include inputs such as interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable and therefore the Fund's bonds have been classified as Level 2.

### c) Derivative assets and liabilities

Derivative assets and liabilities consist of futures contracts, options, interest rate swaps, and credit default swaps. Futures contracts and options are exchange traded and are classified as Level 1 as they are actively traded and a reliable price is observable. Interest rate swaps are valued using indicative bid/ask prices from third party broker dealers while credit default swaps are valued based upon quotations from independent security pricing sources. The inputs that are significant to valuation are generally observable and therefore both interest rate swaps and credit default swaps have been classified as Level 2.

## 6. OFFSETTING OF FINANCIAL INSTRUMENTS

In the normal course of business, the Fund enters into various master netting arrangements or other similar agreements that do not meet the criteria for offsetting in the statements of financial position, but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts. The following tables show financial instruments that may be eligible for offset, if such conditions were to arise, as at December 31, 2019 and 2018. The "Net Amount" column displays what the net impact would be on the Fund's Statements of Financial Position if all amounts were set off.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

December 31, 2019	Gross amounts \$	Financial instruments eligible for offset \$	Net amounts presented in the Statement of Financial Position \$	Related amounts not set-off in the Statement of Financial Position		
				Financial instruments \$	Cash collateral \$	Net amount \$
<b>Financial assets:</b>						
Counterparty 1	48,487	-	48,487	(48,487)	-	-
Counterparty 2	-	-	-	-	-	-
Counterparty 3	-	-	-	-	-	-
<b>Financial liabilities:</b>						
Counterparty 1	(724,756)	-	(724,756)	48,487	676,269	-
Counterparty 2	(61,447)	-	(61,447)	-	61,447	-
Counterparty 3	-	-	-	-	-	-

December 31, 2018	Gross amounts \$	Financial instruments eligible for offset \$	Net amounts presented in the Statement of Financial Position \$	Related amounts not set-off in the Statement of Financial Position		
				Financial instruments \$	Cash collateral \$	Net amount \$
<b>Financial assets:</b>						
Counterparty 1	3,643,530	-	3,643,530	(515,984)	-	3,127,546
Counterparty 2	11,857	-	11,857	(11,857)	-	-
Counterparty 3	690	-	690	(690)	-	-
<b>Financial liabilities:</b>						
Counterparty 1	(515,984)	-	(515,984)	515,984	-	-
Counterparty 2	(92,421)	-	(92,421)	11,857	80,564	-
Counterparty 3	(7,192)	-	(7,192)	690	-	(6,502)

### 7. REDEEMABLE UNITS

During the years ended December 31, 2019 and 2018, the number of units issued, redeemed and outstanding was as follows:

December 31, 2019	Redeemable units outstanding at beginning of year	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of year
Units	13,649,828	-	-	(576,661)	13,073,167

December 31, 2018	Redeemable units outstanding at beginning of year	Redeemable units issued	Redeemable units issued on reinvestments	Redeemable units redeemed	Redeemable units issued and outstanding at end of year
Units	8,894,356	4,755,472	-	-	13,649,828

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

### 8. RELATED PARTY TRANSACTIONS

The Manager is responsible for making decisions relating to the investment of the Fund's assets and providing key management personnel.

#### a) Management and Performance Fee

Management fees of 1.25% per annum on the NAV of the Fund are paid by the Fund to the Manager as compensation for investment management and advisory services. Management fees are calculated and paid as of the last Valuation Date of each month.

The Manager is also entitled to receive an annual Performance Fee from the Fund. The annual Performance Fee is equal to 10% of the increase in the net asset value of the Fund (including any distributions paid on the units of the Fund), subject to an annual hurdle rate of 4%.

The Performance Fee will be calculated daily and payable on the last valuation date of each calendar year, except when units of the Fund are redeemed on the applicable redemption date, in which case, the Fund shall pay a Performance Fee in respect of any redeemed units of the Fund (the "Interim Performance Fee"). The Interim Performance Fees shall be payable on the applicable redemption date. For any partial fiscal year, including with respect to Interim Performance Fees the hurdle rate will be pro-rated. During the years ended December 31, 2019 and December 31, 2018, the Fund expensed \$895,947 in Performance Fees (2018: \$nil).

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

As at December 31, 2019, included in other liabilities are amounts owing to the Manager relating to management fees of \$133,243 (excluding HST) (2018: \$133,196) and performance fees of \$nil (2018: \$nil). Also included in other liabilities are amounts owing to the Manager for administration expenses paid on behalf of the Fund by the Manager in the amount of \$29,846 (2018: \$21,312).

#### b) Related Party Unit Holdings

Unitholders who represent the Manager or Directors of the Manager of the fund held the following units:

	December 31, 2019	December 31, 2018
Units	3,000	1,000

### 9. BROKERAGE COMMISSIONS

Total commissions paid to dealers for the year ended December 31, 2019 in connection with portfolio transactions were \$3,840 (2018: \$11,033).

### 10. INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS PER UNIT

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2019 and 2018 is calculated as follows:

	December 31, 2019	December 31, 2018
Increase (decrease) in net assets attributable to holders of redeemable units	\$8,465,576	\$659,321
Weighted average units outstanding during the period	13,340,169	11,625,802
Increase (decrease) in net assets attributable to holders of redeemable units per unit	\$0.63	\$0.06

### 11. REDEMPTION

Unitholders may redeem their units annually during the period from April 15th until 5:00 p.m. (Toronto time) on the 10th business day in May of each year (the "Notice Period"). Units properly surrendered for redemption during the Notice Period will be redeemed on the last business day in May of each year (the "Annual Redemption Date") and the redeeming Unitholder will receive a redemption price per unit equal to 100% of the net asset value 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.

# EAST COAST INVESTMENT GRADE INCOME FUND

## NOTES TO THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and December 31, 2018

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Unitholders may also redeem their units monthly to the Fund's registrar and transfer agent on the last business day of any month, other than May (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 will be entitled to receive a redemption price per unit (the "Monthly Redemption Price") equal to the lesser of: (i) 95% of the Trading Price (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) of the units; and (ii) the Market Price (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) and less any costs and expenses incurred by the Fund in order to fund such redemption, if any. Any declared and unpaid distributions payable on or before a Monthly Redemption Date in respect of units tendered from redemption on such Monthly Redemption Date will also be paid on the Redemption Payment Date.

Differences, if any, between the redemption price per unit and the NAV per unit at the redemption date is recorded as a realized gain or loss on redemption of redeemable units in the Statements of Comprehensive Income (Loss).

### **12. TAXATION**

The Fund qualifies as a mutual fund trust as defined in the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any taxation year are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and noncapital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. As at December 31, 2019 the Fund had \$206,870 of unused non-capital losses which expire no earlier than 2032 and \$ 1,604,035 unused allowable capital losses.

### **13. SUBSEQUENT EVENT**

The continued worldwide spread of novel coronavirus (or COVID-19) and its impact on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts, and the associated impact on domestic and international equity markets and fixed income yields, is expected to have a material impact on all equity and fixed income portfolios during the first half of 2020, and potentially beyond. We continue to monitor developments in equity and fixed income markets generally, and in connection with the Fund's portfolio in particular. While it is too early to predict the impact of COVID-19 related factors, during a time of increased uncertainty and volatility, we expect that the performance of all portfolios, including the Fund, will be affected in the near term.



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

March 24, 2020

The accompanying audited financial statements have been prepared by Arrow Capital Management Inc., the Manager of East Coast Investment Grade Income Fund (the "Fund"), and approved by the Board of Directors of the Manager. The Fund's manager is responsible for the information and representations contained in these financial statements.

Arrow Capital Management Inc. maintains appropriate processes to ensure that reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Fund are described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP is the independent auditor of the Fund, appointed by the Unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. Their report is set out on the following page.

"James L. McGovern"

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JAMES L. MCGOVERN  
Managing Director & CEO  
ARROW CAPITAL MANAGEMENT INC.

"Robert W. Maxwell"

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ROBERT W. MAXWELL  
Managing Director & CFO  
ARROW CAPITAL MANAGEMENT INC.



## *Independent auditor's report*

To the Unitholders and Trustee of  
East Coast Investment Grade Income Fund (the Fund)

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### **What we have audited**

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
  - the statements of comprehensive income (loss) for the years then ended;
  - the statements of changes in net assets attributable to holders of redeemable units for the years then ended;
  - the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Other information*

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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*PricewaterhouseCoopers LLP*  
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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Wilson.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 24, 2020

**Arrow Capital Management Inc.**

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