

East Coast Investment Grade Income Fund

Management Report of Fund Performance



EAST COAST INVESTMENT GRADE INCOME FUND ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2019

This annual Management Report of Fund Performance contains financial highlights but does not contain the complete audited annual financial statements for East Coast Investment Grade Income Fund (the "Fund"). If you have not received a copy of the audited annual financial statements with the management report of fund performance, you may obtain a copy of the audited annual financial statements, at no cost, by calling 1-877-327-6048 or by sending a request to Arrow Capital Management Inc. (the "Manager"), 36 Toronto Street, Suite 750, Toronto, Ontario, M5C 2C5, or by visiting our website at www.arrow-capital.com or SEDAR at www.sedar.com.

Unitholders may also contact us by using one of these methods to request a copy of the Fund's semi-annual financial report, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

The Fund

The Fund is a closed-end investment trust managed by the Manager. The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol ECF.UN. East Coast Fund Management Inc. (the "Portfolio Advisor"), is the portfolio advisor of the Fund.

Forward-Looking Information

This Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Fund. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Fund believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Fund's filings with Canadian securities regulatory authorities. The forward-looking information is given as of the date of this Management Report of Fund Performance, and the Fund undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Management Discussion on Fund Performance

Investment Objectives and Strategies

The Fund's investment objectives are to provide unitholders with attractive monthly, tax-advantaged cash distributions, while preserving capital through an actively managed, diversified portfolio of investment grade debt securities of Canadian corporate and government issuers that are rated BBB- or higher by Standard & Poor's, or a similar rating from a qualified rating agency. The portfolio consists primarily of corporate investment grade debt securities and government bonds. Distributions are targeted to be \$0.04 per month per unit.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's prospectus dated April 26, 2012 (the "Prospectus"), which is available on the Fund's website at www.arrow-capital.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the units of the Fund.

Results of Operations

Investment Portfolio

As of December 31, 2019, the Fund's portfolio included a total of 109 [December 31, 2018 – 105] corporate investment grade debt securities held both long and short, the net representing approximately 289.3% [December 31, 2018 – 409%] of the net assets of the Fund.

As part of its investment strategy, the Fund sells government bonds short and invests its proceeds in corporate investment grade debt securities. Incorporating short sales also enhances the portfolio yield and allows the Fund to offset some or all of the interest rate risk on that portion of the portfolio. As at December 31, 2019, the Fund had \$246.5 million [December 31, 2018 - \$404.5 million] fixed income short positions and a related unrealized gain of \$1.1 million [December 31, 2018 - \$6.6 million unrealized gain] from short sales.

During the year, the Fund generated net realized and unrealized gain on investments and foreign exchange of \$3.9 million [December 31, 2018 – Loss of \$4.5 million], including net realized and unrealized gain from derivatives of \$2.3 million [December 31, 2018 – gains of \$3.0 million].

Revenues, Expenses and Distributions

The Fund earned interest income of \$0.67 per unit during the year including interest expense on short sales. Total expenses of the Fund for the year were \$0.34 per unit including security borrowing expenses of \$0.08 per unit. During the year ended December 31, 2019, The Fund declared monthly cash distributions to unitholders through the year at the targeted monthly rate of \$0.04 [December 31, 2018 - \$0.04], which totaled \$0.48 per unit for the year [December 31, 2018 - \$0.48].

Net Asset Value

The Net Asset Value of the Fund is dependent upon the performance of the Fund's portfolio. The aggregate Net Asset Value of the Fund as at December 31, 2019 was \$121.5 million, down from \$124.8 million at December 31, 2018. During the year, the Net Asset Value per unit increased by \$0.15, from \$9.14 at December 31, 2018 to \$9.29 as at December 31, 2019 [December 31, 2018 - decrease of \$0.35 from \$9.49 to \$9.14]. There were distributions to unitholders of \$6.4 million during the year.

Liquidity

To provide liquidity for unitholders, units of the Fund are listed on the TSX under the symbol ECF.UN. During the year, units of the Fund traded at an average discount to their Net Asset Value per unit of (2.6%) [December 31, 2018 – premium of 2.4%]. Investors may also redeem their units in accordance with the Fund's redemption provisions.

Redemption

The Fund had redemptions during the year of \$5.3 million [December 31, 2018 - \$nil million].

Related Party Transactions

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

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 year, including with respect to Interim Performance Fees, the hurdle rate will be pro-rated. During the years ended December 31 2019 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) (December 31, 2018: \$133,196). 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 (December 31, 2018: \$21,312).

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit.* The increase (decrease) in Net Assets from operations is based on average units outstanding during the year, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Assets per Unit					
For the year ended December 31, 2019 and for the years ended December 31,					
	2019	2018	2017	2016	2015
	\$	\$	\$	\$	\$
Net Assets per unit, beginning of period / year⁽¹⁾	9.14	9.49	9.48	9.15	10.30
Increase (decrease) from operations:⁽¹⁾					
Total revenue	0.67	0.72	0.60	-	-
Total expenses	(0.34)	(0.27)	(0.29)	(0.08)	(0.09)
Realized gains (losses)	(0.21)	0.08	1.13	0.16	0.23
Unrealized gains (losses)	0.51	(0.47)	(0.87)	0.84	(0.63)
Total increase (decrease) in Net Assets from operations⁽¹⁾	0.63	0.06	0.57	0.92	(0.49)
Distributions to unitholders:⁽¹⁾					
Return of capital	(0.48)	(0.48)	(0.60)	(0.60)	(0.60)
Total distributions to unitholders⁽²⁾	(0.48)	(0.48)	(0.60)	(0.60)	(0.60)
Net Assets per unit, end of period / year⁽¹⁾	9.29	9.14	9.49	9.48	9.15

(1) The net assets per unit shown for December 31, 2019, December 31, 2018, December 31, 2017, December 31, 2016 and December 31, 2015 are referenced to net assets attributable to holders of redeemable units determined in accordance with IFRS and are derived from the Fund's audited annual financial statements. The net assets per unit shown for prior years are referenced to Net Assets determined in accordance with Canadian generally accepted accounting principles ("GAAP") and are derived from the Fund's audited annual financial statements. The Net Assets presented in the audited annual financial statements may differ from the NAV calculated for fund pricing purposes. NAV is calculated using fair value measures as defined by National Instrument 81-106 ("NI 81-106"), whereas Net Assets are calculated in accordance with IFRS/GAAP. An explanation of these differences can be found in the notes to the audited annual financial statements. Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial year. This table is not intended to be a reconciliation of beginning to ending net assets per unit.

(2) Distributions were paid in cash.

Ratios and Supplemental Data (Based on Net Asset Value)

For the year ended December 31, 2019 and for the years ended December 31,	2019	2018	2017	2016	2015
	\$	\$	\$	\$	\$
Net Asset Value (in 000s)	\$121,510	\$124,767	\$84,450	\$46,090	\$50,039
Number of units outstanding (in 000s)	13,073	13,649	8,894	4,862	5,470
Management expense ratio ("MER") ⁽¹⁾	2.43%	1.66%	2.20%	3.85%	2.20%
Trading expense ratio ⁽²⁾	1.19%	1.24%	0.84%	1.07%	0.72%
Portfolio turnover rate ⁽³⁾	451.01%	390.09%	294.30%	434.36%	175.94%
Net Asset Value per unit	\$9.29	\$9.14	\$9.49	\$9.48	\$9.15
Closing market price	\$9.03	\$9.00	\$10.06	\$9.50	\$8.45

*Ratios have been annualized

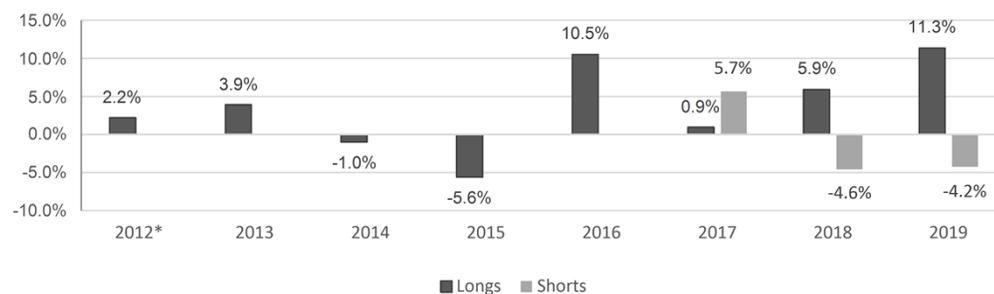
- (1) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions, margin interest, security borrowing costs, and other portfolio transaction costs) of the Fund and Underlying Fund for the stated year, including issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the year.
- (2) The trading expense ratio represents total commissions, margin interest, and security borrowing costs of the Fund and Underlying Fund expressed as an annualized percentage of the daily average Net Asset Value of the Fund during the year.
- (3) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rates in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities of Fund or Underlying Fund for the year, excluding cash and short-term investments maturing in less than one year, by the average market value of investments of Fund or Underlying Fund during the year.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions made by the Fund on its units in the year shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

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

Year-by-year Returns



* Represents partial year

Annual Compound Returns

The following table shows the Fund's return for the year indicated, compared with the FTSE TMX Canada Universe Bond Index.

The benchmark index is calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

The following table shows the compound total returns of the Fund for the year ended December 31, 2019.

	1 Year %	3 Years %	5 Years %	Annualized Since Inception ⁽¹⁾ %
East Coast Investment Grade Income Fund	7.09	4.98	3.83	3.15
FTSE TMX Canada Universe Bond	6.87	3.57	3.18	3.51

(1) Year from May 18, 2012 (commencement of operations) to December 31, 2019.

Summary of Investment Portfolio as at December 31, 2019

The summary of investment portfolio below includes information regarding the Fund as a whole. This summary may change due to ongoing portfolio transactions of the Fund and a quarterly update is available by contacting Arrow at 877.327.6048 or by visiting Arrow's website at www.arrow-capital.com.

Portfolio Composition			Top 25 Holdings	
Industry Sector	% of Net Assets		Security Name	% of Net Asset Value
	Long	Short	Long Positions	
Corporate Bonds	301.3	(12.0)	Merrill Lynch & Co. Inc., Variable Rate, Callable 2.89% 2022-05-30	22.5
Derivatives	(0.2)	(0.5)	Goldman Sachs Group Inc. (The), Variable Rate, Callable 2.433% 2023-04-26	12.7
Equities	5.6	-	Bell Canada, Callable 4.7% 2023-09-11	10.1
Federal Bonds	0.1	(189.2)	Ford Credit Canada Co., Floating Rate 2.87999965% 2020-09-21	9.7
Provincial Bonds	-	(1.7)	Choice Properties L.P., Series '9', Callable 3.6% 2021-09-20	8.0
Cash and Cash Equivalents	22.9	(26.4)	Nissan Canada Inc., Class 'E' 2.606% 2021-03-05	7.0
Other Net Assets	0.1	-	Anheuser-Busch InBev Finance Inc., Callable 3.375% 2023-01-25	6.5
Total	329.8	(229.8)	Wells Fargo Bank NA, Floating Rate, Callable 2.58% 2022-09-09	6.5
			Morgan Stanley, Floating Rate, Callable 2.354% 2021-10-15	6.3
			AT&T Inc., Callable 2.85% 2024-05-25	6.2
			Canadian Imperial Bank of Commerce, Variable Rate, Callable 2.606% 2023-07-22	5.9
			Gibson Energy Inc., Callable 5.25% 2024-07-15	5.8
			Canadian Imperial Bank of Commerce, Variable Rate, Callable 3.45% 2028-04-04	5.6
			Top long positions as a percentage of total net asset value	112.8
			Short Positions	
			Government of Canada 1.5% 2023-06-01	(35.9)
			Government of Canada 2.75% 2022-06-01	(24.6)
			Government of Canada 0.5% 2022-03-01	(20.8)
			Government of Canada 2% 2023-09-01	(12.7)
			Government of Canada 2.25% 2029-06-01	(12.6)
			Government of Canada 0.75% 2021-03-01	(12.1)
			Government of Canada 2.5% 2024-06-01	(10.3)
			Government of Canada 0.75% 2021-09-01	(10.3)
			Government of Canada 3.25% 2021-06-01	(8.7)
			Government of Canada 1% 2022-09-01	(8.6)
			Government of Canada 1.5% 2024-09-01	(6.6)
			Government of Canada 2.25% 2024-03-01	(5.8)
			Top short positions as a percentage of total net asset value	(169.0)
			Total (%)	(56.2)
			Total Net Asset Value (in \$millions)	121.5

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

The summary of investment portfolio may change due to ongoing portfolio transactions. A quarterly update is available.

Portfolio Advisor

East Coast Fund Management Inc. ("ECFMI"), incorporated under Business Corporations Act (Ontario) on June 22, 2009, is the portfolio advisor of the Fund. ECFMI is responsible for all portfolio advisory and investment management services that are provided to the Fund.

Portfolio Advisor Report

For the period ended December 31, 2019

MARKET PERFORMANCE

2019 was a big year for investors virtually across the board. Jobs numbers were strong and sentiment continues to be high, helping to contribute to the 3% equity rally in December that brought the S&P to its strongest annual return since 2013. The TSX saw a more restrained 45bps increase in December but still produced its highest annual return since 2009. Interest rates had a massive rally to start the year, and while they weakened in the last 4 months of the year, the rate move helped push the FTSE TMX corporate index to a +8.1% annual return - its strongest since 2011.

CANADIAN CREDIT SPREADS

Over the course of the year Canadian investment grade credit spreads rallied (tightened) 46bps – starting the year at 150bps (wide) and finishing on Dec 31st at 104bps (tight). This has been a good rally on the heels of 2018 which saw credit spreads weaken (widen) 60bps. Spreads remain weaker than post crisis tights (by around 15bps) but this market is feeling very reminiscent to the start of 2018 (which saw spreads weaken in February).

We have been highlighting the need for interest rate curves to “normalize”, or return to a positive sloping shape, for some time. December finally saw Canadian interest rate curves steepen 13bps (2yr-10yr) and on December 31st, the 2s-10s curve closed at +1bps – the first day since July 2019 that the curve has not been inverted. Meaning, 10yr government bond yields closed the year at 1.7% and 2yr government bonds closed the year at 1.69%. It's not much, but that 2s-10s curve was inverted as much as 22bps in 2019, which is the most inversion we have seen in over 10 years. Given the flatness of the rate curve and the low levels of all-in spread, we think this is likely to continue into this year as well.

RISK PREMIUMS

We remain cautious and continue to be conservatively positioned as we await a cheapening of risk – as premiums are way too expensive. The chart at right shows the relationship between BB and BBB rated credit. This represents the risk premium between the two assets – which has never been more expensive. BB is High yield and BBB is investment grade. We will await a more appropriate pricing of risk before we begin to add higher beta exposure.

LOOKING FORWARD

For investors that are extremely bullish here, it's important to know that we reduced risk throughout 2019, yet we were still able to deliver a strong result. Generally, the economy has shown signs of stability and perhaps even glimpses of improvement, and therefore we do not believe we are entering a recession. Keeping in mind the current rate environment, and metrics that indicate credit spreads are close to fully baked, so our conservative and defensive positioning will continue into 2020. Currently, we want to drive our returns from short dated, high quality credit and we will look to add exposure when risk premiums weaken (widen) and investors are better compensated for the riskiness of investment.

Other Developments

(UPDATE - MARCH 24, 2020)

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.