

## TURBULENT MARKETS CAN LEAD TO GREAT RESULTS

Forecasts for 2012 are almost universally bleak. In stark contrast, this time last year, we wondered whether booming markets and consensus thinking might be too optimistic – It normally takes a decade to repair balance sheets after the kind of global banking crisis we experienced in 2008. So, we expected volatility and suggested caution. This year we suggest investor's look for opportunity in the volatility, but also learn to live with it.

Given frequent negative media coverage, investors may not fully appreciate how well hedge funds have performed over the past decade; Up over 80% cumulatively, compared to zero return from global equities. Replacing market risk with manager risk, even given the higher fees, has generally been well worth it. Unfortunately, in 2011, the average hedge fund performed no better than global equities. Unusually high correlation made hedging difficult, but once this falls a hedged approach will again be more efficient.

We believe the best approach in 2012 is to be ready to step in during market dislocations in key asset classes. A series of mini-crises is likely as the world economy rebalances over the next few years. This is not unprecedented. Indeed, perhaps the US losing its' AAA credit rating is similar in some ways to the dollar's gold convertibility ending in 1971. And the current Eurozone crisis looks a bit like the end of the Bretton Woods in 1973. A turbulent period followed but the 1970s also produced both Apple and Microsoft.

If you are an advisor or investor and want to learn how you can employ more actively managed strategies in portfolio construction, please contact us. Thank you for your support of Arrow.

Regards,

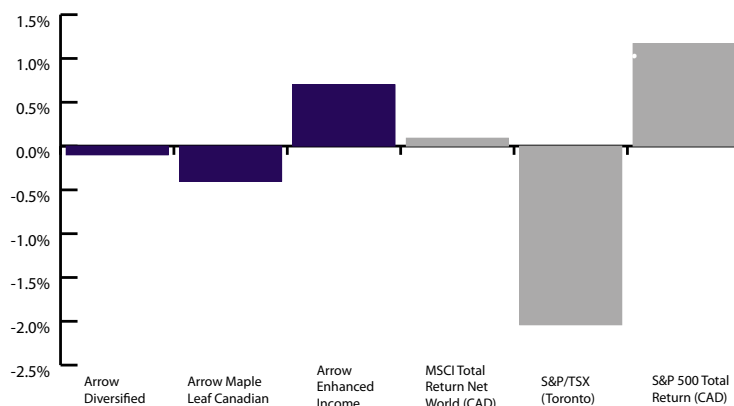


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Arrow Fund of Funds Class A Performance vs Index for December 2011



### Arrow Diversified Fund

- We were flat on the month as the S&P/TSX fell 1.7% to finish the year. Volumes were lighter in December as fund investors were anxious to get into 2012.
- We were flat in three of the four strategy buckets, as only the event driven allocation was positive.

### Arrow Maple Leaf Canadian Fund

- We were down 0.4% for the month as the S&P/TSX was down 1.7% (finished down approximately 8.7% on the year).
- Our event driven book lost money as the TSX sold off in December; we were well-hedged and posted a positive month in macro but it was not enough to offset the event driven book.

### Arrow Enhanced Income Fund

- The Fund was up 0.7% on the month; We made money on all three strategy buckets.
- Our event driven book contributed to over half the gains as we ended the year on a positive note.

AS AT DECEMBER 31, 2011

Fund	1 month	3 months	6 months	YTD	1 year	2 year	3 year	4 year	5 year	Ann. ITD*	Inception
<b>Portfolio Series <sup>1</sup></b>											
Arrow Diversified Fund	-0.1	-1.4	-5.3	-7.9	-7.9	-0.9	2.7	-2.0	-1.3	2.4	January 1, 2002
Arrow Maple Leaf Canadian Fund	-0.4	-2.5	-3.0	-5.3	-5.3	2.2				2.2	January 1, 2010
Arrow Enhanced Income Fund	0.7	-0.6	-1.7	-3.5	-3.5	0.6	5.0	-0.3	0.2	0.6	January 1, 2005
<b>Global Series <sup>1</sup></b>											
Enso Global Fund	-3.5	-8.8	-47.9	-63.0	-63.0	-19.7	4.4	-10.7	-6.9	0.4	July 31, 2002
Garrison Hill Fund	-1.1	-3.3	-6.2	-3.7	-3.7					-3.7	January 1, 2011
<b>Income Series Funds <sup>1</sup></b>											
Arrow High Yield Fund <sup>3</sup>	1.6	1.7	-1.8	0.6	0.6	6.3	11.2	7.3	6.0	5.3	January 1, 2002
COR U.S. Equity Income Fund	-0.3	0.8	-4.3	-0.1	-0.1	3.9	21.3	-11.8		-9.8	March 1, 2007
East Coast Investment Grade Fund	0.2	0.0	-3.2	-2.5	-2.5					-2.5	January 1, 2011
Marret Resource Yield Fund	-0.2	0.9	-4.3	-3.8	-3.8	8.1	14.2	-1.5		-0.2	February 1, 2007
Raven Rock Income Fund	1.0	2.9	0.8	5.9	5.9					11.5	March 1, 2010
<b>North American Series <sup>1</sup></b>											
Act II Long/Short Fund	-1.9	-5.8	-14.6	-7.8	-7.8	1.2	1.4	2.4		2.4	January 1, 2008
Curvature Market Neutral Fund	-0.2	-0.5	2.4	6.4	6.4	6.7				5.4	August 1, 2009
Goodwood Value Fund	-0.2	2.1	-14.6	-21.7	-21.7	-11.3	4.4	-11.3	-9.8	-0.2	June 29, 2001
RCM Opportunities Fund	-0.7	4.0	-3.6	-6.5	-6.5					-1.3	May 1, 2010
SG U.S. Market Neutral Fund	0.6	4.5	3.7	6.8	6.8	2.5	-0.8	3.1	3.7	3.7	January 1, 2007
<b>Principal Protected Notes <sup>2</sup></b>											
Arrow Multi-Strategy Notes, Series 1	0.0	0.3	-0.2	3.0	3.0	4.5	6.5	-0.8	-1.3	2.2	June 30, 2003
Arrow Multi-Strategy Notes, Series 2	0.0	0.1	-0.8	1.6	1.6	3.4	4.8	-0.9	-1.6	1.2	October 31, 2003
Arrow Multi-Strategy Notes, Series 3	0.1	-1.7	-4.8	-5.2	-5.2	-0.5	1.4	-2.9	-3.1	-0.3	March 31, 2004
Arrow Multi-Strategy Notes, Series 4	-0.2	-2.4	-4.1	-4.3	-4.3	-0.6	0.9	-3.3	-3.3	-0.2	June 30, 2004
Arrow Multi-Strategy Notes, Series 5	-0.2	-2.5	-4.2	-4.2	-4.2	-0.5	0.3	-3.1	-3.2	-0.5	October 31, 2004
Arrow Multi-Strategy Notes, Series 6	0.1	-2.2	-4.1	-4.0	-4.0	0.7	0.6	-1.9	-1.6	-0.7	April 1, 2005
Arrow Multi-Strategy Notes, Series 7	0.0	-1.5	-3.1	-2.7	-2.7	1.1	0.3	-1.9	-1.7	-0.8	September 1, 2005
Arrow Multi-Strategy Notes, Series 8	0.0	-2.2	-1.6	-0.2	-0.2	1.8	0.0	-1.7	-1.8	-1.5	May 31, 2006
Arrow Global Long Short Notes, Series 1	0.0	-1.4	-0.5	2.4	2.4	2.4	0.4	-2.9	-2.0	-0.8	March 31, 2005

<sup>1</sup> Performance returns on a percentage basis are net of all fees.

<sup>2</sup> NAVPS and performance returns for Multi-Strategy Notes and for Global Long/Short Equity Notes are net of all fees and are updated monthly.

\* Returns for one year or less are the simple rates of return for the indicated periods. Returns for greater than one year are the compound rates of return.

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