

COR U.S. EQUITY INCOME FUND



Commentary - August 2011

Experience. Intelligent Investing.

	1 mo	3 mons	6 mons	YTD	1 yr*	3 yr*	Ann. ITD	Cum. ITD
COR U.S. Equity Income Fund ¹	(1.6%)	0.4%	(2.0%)	3.6%	9.8%	(3.8%)	(9.8%)	(37.1%)
S&P 500 Total Return Index (CAD)	(3.1%)	(8.1%)	(6.9%)	(3.3%)	8.7%	(2.2%)	(4.9%)	(20.2%)

¹ The COR U.S. Equity Income Fund was formerly called the Arrow US Equity Income Fund. Unless otherwise stipulated returns are net of all fees, in Canadian dollars, reflect class "A" units and assume reinvestment of all distributions. This document is not to be construed as a public offering of securities in any jurisdiction in Canada. The offering of units of the Fund is made pursuant to the Offering Memorandum only to those investors in all jurisdictions of Canada who meet certain eligibility of minimum purchase requirements. Important information about Arrow Funds, including statement of each fund's fundamental investment objective, is contained in their respective offering memorandum, a copy of which may be obtained from Arrow Capital Management Inc. Please read the applicable offering memorandum carefully before investing. The information and materials in this document are for informational purposes only. They are not intended as investment, financial or other advice. The information included in this document is not an offer to sell. While the information and material in this document are believed to be accurate at the time they are prepared, Arrow Capital Management Inc. (and its affiliates, subsidiaries or sub-advisors) cannot give any assurance that they are accurate, complete or current at all times. Past returns are not necessarily indicative of future performance. Actual results will vary. This document is confidential and is intended solely for the information of the person to which it has been delivered.

* Returns are annualized.

August was a month of binary outcomes in the capital markets. US debt ceiling impasse and S&P downgrade, European sovereign debt crisis and concerns about economy took turns in creating volatility in the market, causing VIX (S&P 500 volatility measure) to spike from mid-teens as high as low-40s. Our funds' defensive posture helped mitigate some of the volatility created by the "risk-on" and "risk-off" market trading patterns.

None of the securities we own have any meaningful exposure to Europe. Further, our channel checks haven't detected material deterioration in fundamentals in MLPs and REITs. MLPs continue to benefit from the long-term exploration and production cycle in unconventional oil and gas plays within continental US, while REIT fundamentals (ex. Hotels) are expected to be resilient due to absence of new construction. Both REITs and MLPs continue enjoying strong access to secured and unsecured debt markets.

As a result of the market declines, volatility and low trading volumes we are finding more and more attractive valuations and better arbitrage opportunities. For instance, yield spreads to benchmarks have widened for both REITs and MLPs, while the lack of value in longer-dated government bonds is becoming more and more apparent with 30-year now below 3%.

The COR U.S. Equity Income Fund continues to focus on capital preservation while positioning the portfolio and adjusting hedging strategy to better manage and potentially benefit from the current macro-driven "risk-on"/"risk-off" trading pattern. We are also increasing the yield of the portfolio by raising exposure to higher-yielding senior securities which have cheapened disproportionately during the recent correction.

Thank you for your interest in the Fund. For further information, please contact your regional Arrow representative.

Yours truly,
Steven A. Sugarman