

COR U.S. EQUITY INCOME FUND

Commentary - June 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	1.1%	1.0%	4.4%	4.4%	14.9%	(6.0%)	(10.0%)	(36.6%)
S&P 500 Total Return Index (CAD)	(2.0%)	(0.7%)	3.0%	3.0%	18.7%	1.5%	(3.7%)	(15.0%)

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.

The equity and debt market volatility have increased since the market peaked at the end of April. In addition to the gyrations driven by Greece and concerns over US economy, MLP sector was hurt by unfounded rumors of potential tax changes and declines in crude oil prices. MLPs have again shown to be an inefficient and idiosyncratic asset class. Since beginning of May MLP sector delivered a negative 4% total return. COR Equity Income Funds are flat during that period.

In contrast to the US economy, fundamentals in MLP space have remained healthy with more announcements of accretive growth/expansion projects and solid dividend growth. A useful datapoint on organic growth is a new study by Interstate Natural Gas Association of America projecting \$10B+ annual capital expenditures through 2035. On the external growth front, one of the largest MLPs, ETE/ETP announced the acquisition of Southern Union (NYSE: SUG) a non-MLP mid-stream company for roughly \$9B. This has since resulted in a bidding war between ETE and Williams Companies (NYSE: WMB). As you know, ETE has been one of our favorite positions for some time. We look forward to results of this auction process and will share some insights into this deal in future letters.

MLP sector's advantageous business model is attracting new entrants with Dominion Resources and CenterPoint Energy recently announcing plans for new MLPs. Currently, there are six MLP IPOs in registration. Capital markets and transaction activity oftentimes presents attractive opportunities, and IPOs increase choices of investment vehicles available to active managers. While the recent correction combined with rising dividends has improved the yields, we remain cautious on valuation and are maintaining conservative sector exposure level.

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

Yours truly,
Steven A. Sugarman