

	1 mo	3 mos	6 mos	YTD	Cum. ITD
East Coast Investment Grade Fund ¹	0.3%	(3.1%)	(3.2%)	(2.2%)	(2.2%)
DEX All Corporate Bond Index	(0.4%)	1.2%	4.6%	6.0%	6.0%

¹Unless 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.

"Ten years ago the U.S. had Steve Jobs, Johnny Cash and Bob Hope. Now they have no jobs, no cash and no hope."

Anonymous Market Expert

Markets continue to oscillate back and forth based almost entirely on the latest comments from some politician somewhere who just stepped out of yet another "emergency" meeting. As a result, it has become difficult, if not impossible, to apply any of the valuation and other financial skills that I have relied on over the last 25 years. I thought I had stumbled upon something in the first half of the month though when I noticed that the market was down on Mondays, Wednesdays and Fridays and up on Tuesdays and Thursdays but, alas, as soon as I mentioned it to a couple of people, that too changed.

In the U.S., the September payroll number was up 80,000 with the prior two months revised up a combined 102,000. The unemployment rate also dropped 0.1% to 9.0%. The Fed is predicting that the unemployment won't drop below 8% until 2013. On a positive note, there was a drop in long term unemployment, a decrease in "under-employment" and an increase in hourly earnings.

In Washington, the partisan divide continues to widen in the run up to next year's elections. The "Not-So-Super" committee, formed to reach a bipartisan agreement on reducing the budget deficit, appears unlikely to agree on a plan by its November 23 deadline thereby triggering \$1.2 trillion of automatic cuts to discretionary spending. Part of the problem is that all 6 Republican members of the committee have signed a no-tax pledge thereby rendering them unable to compromise. As a result it all seems a bit futile as any agreement would of necessity require some mix of revenue increases, e.g., tax hikes, and spending cuts. Super!

In Canada, October payrolls fell a stunning 54,000 jobs and the

unemployment rate rose 0.2% to 7.3%. This was the biggest monthly loss of jobs in two and a half years. Overall 71,700 full-time jobs were lost with 75,400 lost in Ontario alone. This labour market weakness came after a surprise increase of 61,000 jobs in September. Analysts are therefore suggesting that it is likely that the September reading was largely statistical noise and that October was a necessary adjustment to get the numbers back in line. If this is so, as is likely, then the better way to look at it is that we have had a very modest increase of 7,000 jobs over the last two months; tepid but positive.

Economic data continues to support a 2.5% to 3.0% reading for Q3 GDP after a series of one-time factors caused a negative print in Q2. Furthermore, although the Bank of Canada has actually dropped its forecast for Q4 to +0.8%, some economists have their Q4 forecasts as high as +4.2% q/q annualized.

On the U.S. monetary front, the FOMC left policy unchanged at its most recent meeting although Bernanke did indicate that further stimulus is on the table if necessary. He specifically mentioned that the possibility that the Fed might purchase mortgage-backed securities, presumably with the objective of supporting the still cratering residential housing market. My view is that, should this come to pass, it will be yet another doomed-to-fail attempt to reflate the burst housing bubble. At this point, dropping housing sales and prices is a symptom. A lack of jobs is the problem. Everyone's attention should be focused exclusively on job creation. I believe that as more people get hired and get their hands on a little bit more disposable income, markets generally, and the housing market specifically, will start to improve quite naturally. This will be the beginning of the virtuous cycle that everyone is looking for. I just don't see how MBS purchases are going to start that ball rolling.

On October 25, the Bank of Canada announced that it too was

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leaving policy unchanged. The BOC stated that “the outlook for the Canadian economy has weakened since July, with [Canada being impacted by a] significantly less favourable external environment”. The Bank also sees lower energy prices playing a key role in reducing inflation to as low as 1% in Q2 of 2012 from a recent high print of 3.2% in September. Their next fixed announcement date is November 10. We expect policy to remain unchanged.

In Europe, as we expected, Mario Draghi, the new President of the ECB, reduced rates by .25% to 1.25%; the first European rate cut in two years. The real news last month was the latest emergency Euro summit in the last week of October. Markets were elated when they produced their third, so-called, comprehensive solution to bail out Greece and save the Euro. The deal involved a 1 trillion Euro bailout fund, a 50% haircut for holders of Greek bonds and a forced 106 billion Euro recapitalization of Euro area banks. The elation was, however, temporary as Greek PM Papandreu left the summit and promptly announced that the approval of the deal would be made the subject of a general referendum, quickly relieving us of whatever modicum of certainty that had been provided by the announcement of the deal itself. Euro bonds promptly sold off. Then when Merkel and Sarkozy effectively threatened that a “no” vote would in effect be Greece’s resignation from the Euro, Papandreu blinked and said they would now not have a referendum and furthermore would attempt to form a “national unity” government of which he would not be the head. This has, of course, unleashed another wave of disbelief. In the end, things will calm down again but this will be temporary because the only thing that is clear is that Euro politicians are incapable of resolving this without a crisis. Stay tuned.

In equity markets, the TSX was up 5.41%^ on the month for a year-to-date loss of 8.86%^. The S&P was very strong at +10.77%^ for the month getting it back to virtually flat on the year. TSX Q3 earnings continued to beat expectations on average. For the quarter, there were 62.4%^ positive surprises and 36.6%^ negative surprises, mostly in materials and technology. If you do the math you’ll see that the more interesting number is the mere 1% of companies which came in on analyst’s expectations leading me to wonder yet again why those guys get paid so much.

As with securities markets, the currency markets are being much less influenced by fundamental macro news as political announcements and pronouncements dominate markets and risk appetites. Away from the Euro-nonsense, the Bank of Japan

had to intervene in the market to sell Yen after the US\$ reached an all-time low of 75.31 Yen. This almost certainly means that the US\$ will continue to reach new lows in the months ahead.

Commodity price indices fell for a second straight month; now down approximately 6% from the April highs. Oil, copper and grains all fell sharply in the first half of the month and then rallied into the month end. These movements are being driven by the alternating optimism and pessimism about an eventual Euro solution but also by the emerging flattening of China’s economic trajectory.

In fixed income markets, the DEX universe had its first down month since March. It was off 0.43%^ for a year-to-date of +6.92%^. The DEX corporate index was also down 0.38%^ for a year-to-date of +6.11%^. Long maturities, especially long Canada’s, led the decline. Yields rose across the curve between 12 and 16 basis points. Corporate bonds were the safe haven, finally, especially toward the end of the month. Spreads narrowed by 4 basis points on average while provincial bonds rallied 7 basis points on average. While the equity markets are behaving like the European debt crisis is under control the credit markets are saying that they have seen this movie before and there is considerable risk that this situation deteriorates. Italian EU yields hit lifetime highs today and are as high as they have been since the crisis began. IG and HY credit spreads have narrowed in October but they are significantly wider than they were 6 months ago. If you remember the early summer of 2008 after the equity markets shrugged off the near default of Bear Stearns, credit and funding spreads remained very high for banks and corporations. The divergence of equity markets and credit spreads today looks a lot like the summer of 2008 and suggests to me that either the equity markets need to stall or the credit market needs to rally.

So things remain volatile but, on one level, largely unchanged. Politicians continue to, on the one hand, have emergency meetings and pretend to come up with “comprehensive” solutions or, on the other hand, form “Super” committees with virtually no chance of even pretending to have to come up with a solution. With respect to the emergency meetings, it seems to me that, before you can give it that label, the people at the meeting should at least have a snowball’s chance in hell of dealing with the emergency. Unfortunately these recent Euro-seances look more like a bunch of toddlers in a day care having an emergency meeting to solve a diaper shortage. They know that they need diapers but they don’t know how to get any.

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