

	1 mo	3 mons	6 mons	YTD	1 yr*	3 yr*	5 yr*	Ann. ITD	Cum. ITD
Arrow High Yield ¹	1.5%	(3.0%)	(3.1%)	0.5%	3.2%	9.2%	6.4%	5.4%	68.1%
ML High Yield Master II (CAD)	5.8%	(2.3%)	(1.4%)	4.2%	4.9%	22.2%	6.6%	8.2%	116.1%

¹ The Fund was initially advised by Milford Capital Management Inc. until the advisor was replaced in August 2004 by Marret Asset Management. 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.

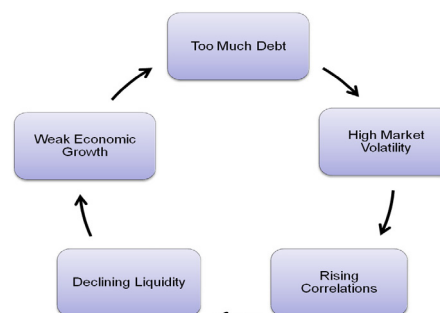
MONTHLY RECAP

Risk assets recovered strongly in October led by the S&P 500, up 10.93%[^] (YTD +1.30%[^]). The broad US High Yield Index followed, gaining 5.96%[^] (YTD +4.16%[^]). Canadian High Yield lagged, returning 2.13% (YTD +1.86%). Canadian stocks also lagged the U.S. with the S&P TSX up 5.61%[^] (YTD -6.94%[^]). Intermediate Term Treasuries lost 80bps[^] (YTD +10.55%[^]) but still remain the best performing asset class YTD.

COMMENTARY

Markets rallied hard on rumours of a "solution" for the Greek debt crisis and expectations of a material increase in funds available to support the PIIGS and European banks. These included leveraging the EFSF, IMF support, contributions by China and the other BRIC countries and additional funds from the ECB. We feel the steps taken by the European politicians are a large step forward from three months ago when the party line was "Greece is fine" and "the French banks have sufficient capital". We do not believe, however, that Europe's "Grand Plan" as solution to the problem will be sufficient to calm markets or will be successful in avoiding a Greek default. Perhaps the most telling data point when the plan was announced (driving European equities up ~4% and US stocks up ~3%) was the Italian 10 year bond yield. This critical barometer fell 3 basis points, from 5.88% to 5.85% and sits at 6.50% as we write this. Our view was that if this was a credible plan, Italian bond yields would have fallen 100-150 bps. Europe will continue to be a problem and we expect defaults from Greece, Portugal and perhaps Ireland before we are done. We also expect a very difficult recession in Italy being a significant drag on Eurozone growth. We are encouraged that the politicians are getting to the tough decisions faster than we anticipated, but we cannot conclude that market volatility will abate anytime soon.

We believe it is important to not get caught up in all the political wrangling and headline-watching and continue to focus on the economic fundamentals. The only painless solution to the sovereign debt problems is 1990's stale non-inflationary growth. The probability of recreating the macro environment of the 1990's appears virtually zero to us, but it would solve the problem. We have recently written about the Vicious Circle that we believe financial markets and the global economy are in:



We raise this because we recently read a Goldman Sachs research piece on the impact of market volatility on economic growth. They conclude that periods of high volatility similar to what we have experienced in the past three months have historically reduced Industrial Production by approximately 1% from what would have otherwise occurred over the next 3-6 months. It is our sense that the lack of negative economic data in the US (and perhaps China) is the major reason why risk markets have rallied over the past several weeks. When we look at data points which we believe are good leading indicators, most of these are pointing to a deteriorating global economy. This suggests to us that the current rally is likely an overbought bounce and, if the leading indicators are correct, volatility will spike and risk assets will decline.

[^] Indices are denoted in US dollars.

We continue to like AAA corporate bonds of US multinational companies, unhedged for now, lower volatility positions in precious metals and short positions in selective risk assets. Energy is the one area that has surprised us and could be construed as a leading indicator that global growth is not as weak as we see it. We are doing some work on this to determine if supply or demand is the driver of rising oil prices and will see how this plays out.

Initiated: Cline Mining (warrants), Goldman Sachs (debt), Jarden Corp (debt), Precision Drilling (debt), Starwood Hotels (equity), Thompson Creek (equity).

Closed: Breitburn Energy (equity), Chrysler (debt), Drummond Coal (debt), GenOn Energy (debt), Marina Finance (debt), Mirabela Nickel (debt), Sirius XM Radio (debt & equity), Visteon Corp (debt), Calpine Corp (equity), Great Cdn Gaming (equity), Iron Mountain (equity), Level 3 Communications (equity), Liberty Global (equity), Linn Energy (debt).

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

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