

	1 mo	3 mons	6 mons	YTD	1 year	Cum. ITD
RCM Opportunities Fund ¹	(3.9%)	(7.3%)	(15.9%)	(10.2%)	(3.1%)	(6.0%)
S&P/TSX (CAD)	(9.0%)	(12.6%)	(17.7%)	(13.5%)	(6.0%)	(4.8%)

¹ 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.

For the month of September the RCM Opportunities Fund returned -3.9% net of all fees, as compared to -9.0% for the S&P/TSX. For the third quarter, the Fund returned -7.3% as compared to -12.6% for the S&P/TSX.

Q3 Review

We maintained the Funds' conservative positioning, as discussed in our Q2 Update, throughout the quarter in the face of ongoing macro uncertainty, market volatility and high correlation across securities and asset classes. This approach served us well in minimizing losses during the quarter relative to broad market indices and many of our peers who pursue a similar strategy. As you know, the Funds' strategy seeks to identify misunderstood and complex situations that have an identified catalyst to unlock value and where the source of undervaluation is well understood. While it may generally be expected that there is a certain level of volatility associated with these types of situations, RCM's robust diligence process and the identification of a well defined, underlying catalyst are designed to ensure limited risk of permanent impairment of capital. It is RCM's view that the ultimate risk adjusted return potential of this approach materially outweighs short term risks of interim volatility. Two examples during the quarter highlight this approach:

Augyva Mining Resources ("AUV"): AUV is a junior iron ore exploration stage Company with a core asset in the James Bay region of Quebec called the "Duncan Lake Iron Ore" project ("DLIOP"). The Company has a pro-forma 35% interest in the project which has a 43-101 compliant Technical Report that outlines ~850 mmT of iron ore resource grading 24.5%.

We identified this opportunity in Q1, 2011 as AUV's partner in the DLIOP, Century Iron Mines Corporation ("Century"), was raising capital to go public via a reverse takeover. During the marketing for the financing, Century was very vague as to the identification of their partner and after some diligence we were able to identify

the partner as AUV. Upon completing initial financial analysis, we uncovered the reason for Century's reticence to broadly identify their partner – AUV was trading at a fraction of Century's proposed financing price on a relative basis. Century believed the premium was justified, in part because Wuhan Iron and Steel Co ("WISCO", one of the world's largest steel producers) of China was committing to invest \$62.5mm in the RTO financing as well as committing \$120 mm directly at the asset level of Century's various projects along with a commitment to arrange and backstop the eventual project financings required to put the projects into production. In effect, Century was promoting WISCO and other investors into the company at a very high initial valuation on the prospect that further dilution would be minimized through to eventual production. To put in numerical terms, Century's implied valuation was \$2.25 / contained metal tonne of iron vs. AUV's implied valuation of ~\$0.25 / contained metal tonne of iron on the exact same asset.

After contacting the Company, we learned that AUV was contemplating a financing in which we participated, largely to benefit from the substantial relative discount to Century which we believed would narrow once Century became publicly traded. While the discount did narrow substantially, the market volatility experienced in Q2 and Q3 was exacerbated by a number of questionable management decisions that we believed would materially impair asset value. After several months of conversations with management, we believed the board was effectively dysfunctional and that management and their board designates had no interest in preserving and enhancing shareholder value and instead were pursuing their own agenda. As a result, we filed a Dissident Circular in August (available on SEDAR or we can send to you, let us know if you have interest) with the intent of replacing the current board and repositioning the Company's focus on maximizing the value of its DLIOP project interest in the context of relative valuation and asset level transactions. At the end of August, our Dissident

Slate of Directors (including RCM Portfolio Manager/Principal Kuldeep Billan) were overwhelmingly elected to the Board of Directors at AUV's AGM.

While AUV remains a relatively small position in the Funds, we believe that the asymmetric risk/return profile, the opportunity for a well protected multiple of capital return and our ability to drive the path to ultimate value creation justifies our involvement. We generally prefer a process of constructive engagement, however the capability to drive value by becoming active in select situations positively differentiates RCM. We look forward to updating you on this position in the coming quarters.

Open Range Energy ("ONR"): On September 6, 2011 ONR announced the separation and subsequent spin-off of its two core businesses, Poseidon Concepts and 'New ONR' (please see our Q1, 2011 letter for detailed overview of each business). The announcement drove the stock 30% higher in the month and is up another 26% in October as of the date of this letter. While ONR has been the most successful investment in the Funds' history (~400% return in 11 months), we would point to our ability to identify undervalued and misunderstood securities early on that possess realizable catalysts that have the potential to material increase equity value. While the timing of these catalysts are inherently difficult to predict, our research is focused on sources of downside protection, the identification and monetization of positive catalysts (or negative catalysts for short positions), and the likely resultant impact.

We are focused on situations where the risk of permanent impairment of capital over our likely holding period is low and the return profile is positively skewed; while we attempt to minimize the impact of price volatility on daily returns, the nature of our special situation and event driven investing approach dictates that we should be willing to incur some level of reasonable price volatility in the interim so long as the risk of permanent of capital is minimal and the probability that our pre-identified catalysts materialize is high.

ONR is a good example of this concept: over the Funds ownership period ONR's share price has decreased 10% or more over a three day period on 8 occasions. Contrast that point against the fact that over the same period, ONR's Poseidon subsidiary has grown EBITDA from ~\$4.0 mm to a 2011E forecast of \$55.0 mm – while we were collectively enduring this price volatility, the business was continuing to rapidly increase run rate cash flow such that even a substantial compression in valuation multiples would still yield a significant return once the business was separated,

which ultimately bore out inline with our initial thesis. Now this is not to say we believe managing interim volatility is not important, on the contrary, we are only willing to incur periods of greater volatility when we believe the Funds' are being well compensated to incur it.

Outlook & Portfolio Positioning

Our current exposure consists not only of our highest conviction, best risk-adjusted return opportunities, but also in those situations where we are proactively engaged with management, boards, and advisors in surfacing value and exploiting dynamics identified as part of our original investment thesis. We believe that this approach to managing risk and return in the current environment makes the most sense since given: the portfolio experiences reduced levels of volatility than the overall market given the low exposure; we retain exposure to core names which we are proactively engaged to drive our agenda and which we believe can deliver meaningful portfolio returns over the next 6 to 9 months even with our low exposure; it keeps our powder dry for the growing pipeline of opportunities that the high volatility of the current market creates. While constructive engagement has always been a core component of our investment strategy, we believe that a focus on more of these types of opportunities (vs. more conventional special situations) should allow the Funds' to increase their exposure to uncorrelated events which we believe can deliver meaningful risk adjusted returns, even at low levels of net exposure.

Our pipeline of new opportunities is robust and as always we are being diligent and conservative in allocating capital. While we continue to hold a higher than usual amount of cash given the environment, we are nonetheless deploying this in opportunities that the market turmoil has created. On that front, we have been focused on increasing the number of event driven 'pairs' which we define as situations where one security is subject to a corporate event however the impact on another company could be materially more meaningful. Additionally with the widening of credit spreads, we are seeing select opportunities in stressed credit and distressed-type situations. Indeed, a special situations strategy is well suited to the current macro environment where there are a substantial amount of dislocations across asset classes, where price and value become distorted, and where companies become stressed or distressed.

With the recently announced Euro bail-out plan (though light

on details), less gloomy outlook on the US economy, and a fairly decent Q3 reporting season, asset prices have strengthened substantially over the last several weeks yet still remain volatile. While this provides a more constructive environment to make "rational" investment decisions as opposed to guessing on "black or red", we nonetheless believe that headline risks as well as real economic risks are still abundant. We believe our strategy and approach to investing and risk management is well suited to the current macro environment.

We very much appreciate your interest in the Fund. For further information, please contact your regional Arrow Capital representative.