

SG US Market Neutral Fund

Commentary - October 2011

Experience. Intelligent Investing.

	1 mo	3 mons	6 mons	YTD	1 year	3 year	Ann. ITD	Cum. ITD
SG US Market Neutral Fund ¹	2.0%	1.2%	(0.1%)	4.2%	5.6%	(5.4%)	3.4%	17.3%
Russell 2000 Index (DRI) (CAD)	9.7%	(2.8%)	(9.7%)	(4.5%)	4.2%	17.2%	(3.2%)	(14.4%)

¹ The Fund was originally advised by Tetra Capital Management until the advisor was replaced in December 2010 by SG Capital Management. The Fund was formerly called the Tetra U.S. Long/Short 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.

October was one of the strongest months in market history. You have to go back to 1974 to find a higher monthly performance. October's move was fueled by European authorities offering a plan to handle the Greek debt issues and backstop European banks, along with positive GDP numbers that quieted concerns of a US recession. The Financials sector had extremely strong performance as did those companies with European exposure. Unfortunately, we don't invest in the Financial sector and we were net short Europe, when considering the geographic exposures of our long and short holdings. The US markets were and continue to be extremely volatile with daily swings of 2% or more as the norm. Understandably, positive and negative news is greeted with over-reactions in this environment. However, it is hard to point to significant events on a daily basis that would justify such dramatic daily swings. The market has been dominated by rumors, daily mood shifts and High Frequency Trading that exacerbates every tidbit of information. Clearly, there is a lot of uncertainty and this continues to be reflected in this week's trading, with stocks down 6% in 2 days on renewed concerns about Greece. We are carefully managing risk in this period of uncertainty with tight hedges and low exposures. With that said, we are pleased that our earnings event strategy is working well despite the daily volatility. Companies that positively surprise continue to outperform those that disappoint fundamentally.

To date, the majority of companies reporting have had in line or better results. However, there has been a consistent theme of cautious guidance going forward. Companies are unwilling to go out on a limb and be aggressive in light of the uncertainty surrounding domestic and international events. Our Congress is gridlocked, with both sides concerned with appealing to the extremes of their base rather than coming together with a solution that moves this nation forward. The next test will be the willingness and ability of the consumer (two thirds of GDP) to spend during this holiday season. Last quarter saw an increase in consumption but it was at the expense of savings with expenditures outpacing income. Without growth in jobs and income or an improving housing picture, it is hard to forecast a strong holiday sell-through. That being said, we are

often reminded that markets do climb walls of worry and it's fair to say that expectations are fairly modest.

As we move into November, we have a number of earnings releases in the first half of the month. We are pleased that the market, while volatile, is behaving rationally to company specific earnings events. If we continue to be accurate in our research efforts, we are confident we can produce positive results in November regardless of market direction. Fortunately, we will also have the opportunity to meet with several management teams at various stock conferences throughout the month. We are eager to get updates and find new long and short ideas based on our views of 2012 guidance, which most companies will give over the coming months.

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

Sincerely,

Ken Grossman
Partner, Portfolio Manager

Glen Schneider, CFA
Partner, Portfolio Manager

[^] Indices are denoted in US dollars.