SG US Market Neutral Fund

Commentary - September 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]	1.0%	(0.7%)	(1.5%)	2.1%	4.7%	(5.1%)	3.0%	15.0%
Russell 2000 Index (DRI) (CAD)	(5.4%)	(15.6%)	(17.6%)	(13.0%)	(2.0%)	(2.8%)	(5.1%)	(22.0%)

[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.

Market volatility continued through September, with large daily percentage swings as a result of increased fears over the sovereign debt crisis and global macroeconomic softening. Not only are the swings dramatic on a daily basis but intraday as well. Recently a statistic was published that in 44 of the past 45 sessions there have been triple digit swings in the market, which is unprecedented.

In terms of portfolio management in this volatile environment, managing risk tightly is of critical importance to us. There are no heroes in this market, only victims, and being able to preserve capital is our main concern. We were fortunate to have gone through the market meltdown in the fall of 2008 because it tested our risk management disciplines and further educated us on effective and ineffective strategies. We have implemented what we learned and are navigating well through the current down market. Our drawdown in the current bear market is significantly less than the fall of 2008. As noted on the cover page of the email, our Market Neutral funds are positive for the year, while the Long Short and Long Only funds, that carry higher exposures to the market, are only down modestly. This compares to a Russell 2000 index which is down 17% for the year and -28% since then end of May. Again, our investors should take comfort in knowing that we are experienced in managing portfolios in difficult market conditions

If we are not in a recession today, we certainly are teetering on the brink of one. Over the past several weeks, we have been to more than a half dozen research conferences where we have met with senior management from over a hundred different companies. The tone of the meetings has noticeably changed for the worse. In previous monthly letters, we pointed out that companies were worried about a slowdown but were not yet actually seeing it in their businesses. Today we feel like many companies are starting to experience some softening in demand, especially those directly tied to the consumer. The consumer is deleveraging their balance sheet, the value of their largest asset (their home) has declined significantly, unemployment is high and food and gas prices have risen. Combining these negatives with the general lack of confidence makes it easy to understand why consumers may be thinking twice about spending money on cars, televisions, or other discretionary items. Consumer confidence measures are currently sitting at the lows of the last recession. This may help explain why, according to US Today, consumers are even cancelling their premium cable services and eliminating their Netflix accounts.

Unfortunately, the evidence of a slowdown is a Global phenomenon not just confined to the US, with Europe and Asia Pac countries all reporting weak economic data. Additionally, commodities like copper (close to 17 month lows) have had significant declines of late, which are a signal of economic weakness. The most recent report of the Conference Board's Leading Economic Indicators showed an advance of .3% in August. If you dissect the number you will find that .7% was due to money supply which is purely a function of households shoring up their balance sheets. The Coincident to Lagging Indicator, which might be a better look at the economy, has been down for the past 5 months. What is most disconcerting is how policy makers are mostly just pointing fingers of blame rather than coming up with real solutions. The political climate continues to be unsettling and will probably not get any better soon. Getting elected appears to be me more important than finding productive solutions for the good of the country. Hopefully, this will change after the election but until then, all we can do is hope for the best.

We have moved our Prime Brokerage services from BNP Paribas to JP Morgan. This change will have no impact on your account, fund accounting or any reports you receive. We have had a good relationship with the folks at BNP since the inception of our firm. We have had no issues with the quality of their service and reporting, but we believed it to be prudent to make this move given the continued focus on the bank's sovereign debt holdings which has created too much uncertainty surrounding its future. We are in the business of picking stocks and did not want to be sidetracked by non-investment related issues. As you know, we manage all our accounts para passu by strategy. Because of this, we are using the managed accounts as a proxy for performance for both the market neutral and long short funds

^ Indices are denoted in US dollars.

rather than delay estimated results. Assets have been transferred and reconciliation will be complete within the next week. However, given the market's volatility we wanted all investors to have an estimate of our results for September.

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

Sincerely,

Ken Grossman	Glen Schneider, CFA
Partner, Portfolio Manager	Partner, Portfolio Manager

^ Indices are denoted in US dollars.