

# Exemplar Diversified Portfolio

## Management Report of Fund Performance

### **EXEMPLAR DIVERSIFIED PORTFOLIO SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

For the period ended June 30, 2014

This semi-annual Management Report of Fund Performance contains financial highlights but does not contain the complete semi-annual financial statements for Exemplar Diversified Portfolio (the "Portfolio"). If you have not received a copy of the semi-annual financial statements with the Management Report of Fund Performance, you may obtain a copy of the semi-annual financial statements, at no cost, by calling 877.327.6048, by writing to us at Arrow Capital Management Inc., 36 Toronto Street, Suite 750, Toronto, Ontario M5C 2C5 or by visiting our website at [www.exemplarfunds.com](http://www.exemplarfunds.com) or SEDAR at [www.sedar.com](http://www.sedar.com).

Security holders may also contact us using one of these methods to request a copy of the Portfolio's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure relating to the Portfolio.

#### **Forward-Looking Information**

This Management Report of Fund Performance contains forward-looking information and statements relating, but not limited to, anticipated or prospective financial performance and results of operations of the Portfolio. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking information. Without limiting the foregoing, the words "believes", "anticipates", "plans", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking information.

Although the Portfolio believes it has a reasonable basis for making the forecasts or projections included in this Management Report of Fund Performance, readers are cautioned not to place undue reliance on such forward-looking information. By its nature, the forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts and other forward-looking statements will not occur. These factors include, but are not limited to, those associated with the performance of the equity securities market, expectations about interest rates and factors incorporated by reference herein as risk factors.

The above list of important factors affecting forward-looking information is not exhaustive, and reference should be made to the other risks discussed in the Portfolio's filings with Canadian securities regulatory authorities. The forward looking information is given as of the date of this Management Report of Fund Performance, and the Portfolio undertakes no obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## **Management Discussion on Fund Performance**

### **Investment Objective and Strategies**

The investment objective of the Portfolio is to seek superior long-term absolute and risk-adjusted returns with the potential for low correlation to global equity and fixed-income market returns through the selection and management of long and short positions in a globally diversified portfolio of futures, options, forward contracts and other financial derivative instruments on agricultural and soft commodities, metals, energies, currencies, interest rates and equity indices.

The core investment strategy of Integrated Managed Futures Corp. ("IMFC"), the investment advisor, is based on a risk budgeting strategy of allocating capital to markets and utilizing that capital based on the amount of risk premium being priced into markets. IMFC utilizes a fixed risk budget that targets long-term average annualized downside deviation of less than 13%. Downside deviation is a risk measure that focuses on returns that fall below a minimum acceptable return. This risk budget is then equally allocated across over 60 markets, adjusted by their volatilities and correlations. As a result of this allocation methodology, generally 50% of the portfolio risk budget is allocated to globally-traded industrial and agricultural commodity futures markets, and 50% is allocated to global currency, treasury debt and equity index futures markets.

The degree to which a market's allocated risk budget is utilized is then determined by the net position of multiple trading strategies or algorithms that sample market prices in order to capture persistent risk premiums and changes in risk premiums over time. Unutilized risk budgets that result from conflicting underlying signals are not re-allocated to other markets but go to cash. In addition to the core investment strategy, the investment advisor may utilize trading strategies based on other persistent anomalies or structural biases identified in market data.

The investment advisor transacts on highly liquid exchanges globally that may include, but are not limited to, all futures exchanges in the United States and Canada, the London Metals Exchange (LME), Euronext-LIFFE, the Eurex Deutschland (EUREX), the International Petroleum Exchange of London Limited (IPE), the Singapore International Monetary Exchange (SIMEX), the Sydney Futures Exchange Ltd. and the Tokyo Commodities Exchange (TCE).

The Portfolio may hold cash or invest in short term securities for the purpose of preserving capital and/or maintaining liquidity, based upon the investment advisor's ongoing evaluation of current and anticipated economic and market conditions.

### **Investment Risk**

The risks of investing in the Portfolio remain as stated in the Portfolio's prospectus dated May 14, 2014.

The Portfolio is suitable for clients seeking medium to long-term growth (through capital appreciation) who have a moderate risk tolerance level.

### **Results of Operations**

For the six months ending June 30, 2014 Series A Shares of the Portfolio delivered a loss of 5.7%. Its benchmark, the Newedge CTA Index, posted a gain of 1.1% over the same period. Please refer to the Past Performance section for the performance of the other series. The performance of the other series offered by the Portfolio differs from Series A due largely to varying level of expenses charged to each series, as explained in the Management Fees section.

After a strong return in 2013, the first half of 2014 was characterized by a partial give back of unrealized gains, precipitated mainly by a knee jerk upward reaction in commodity prices to geopolitical developments in Ukraine. Gains came from long equity, German bond and livestock positions. Losses were mainly driven by net short commodity positions that reversed on the back of developments in Ukraine along with some seasonal weather concerns.

The first half returns appear to be more corrective in nature, as opposed to suggesting any major underlying fundamental shifts. This view is predicated on the fact that losses were concentrated, with little follow through, on specific events in Q1, with flattish returns in Q2. The portfolio remains broadly net long equities and livestock, net short agricultural and soft commodities, and holding mixed long and short positions in bonds, industrial commodities and currencies.

This diversified portfolio exposure is broadly reflective of a continued gradual recovery, and shift to domestically-driven central bank policy versus coordinated crisis-driven global central bank policy. Typically, as economies begin to normalize

post-crisis, correlations among assets break down, resulting in diversified long and short exposures as markets begin to move off of their own fundamentals versus broad macro risk themes.

Looking forward, the trends that developed in the second half of 2013 on the shift to tapering in the United States still appear to be largely intact, despite the commodity correction and geopolitical developments during the first half of 2014. It is further our opinion now, as it was six months ago, that the Portfolio will benefit more from currency and commodity trends than from equity and fixed income markets.

Whereas divergent central bank policy and ever changing supply/demand fundamentals are likely to support currency and commodity trends, the prospect for meaningful continued returns, at least from the long side, from traditional equity indices and fixed income markets is more difficult to comprehend. The broad economy has, and continues to, recover in classic fashion following a boom/bust cycle. However, the challenge from here is that eventually profit growth will need to validate the surge in equity valuations during the recovery. Historically, at current cyclically adjusted valuations, the prospect for meaningful forward looking equity returns is below average. To this point, one major portfolio development in the first half worth concluding with is that the long equity exposure was hedged in Q2 through the purchase of put options.

### Recent Developments

On December 2, 2013, Arrow Capital Management Inc. ("Arrow" or the "Manager") acquired all the outstanding shares of BluMont Capital Corporation ("BluMont"), resulting in a change of control of BluMont. On April 1, 2014, Arrow and BluMont amalgamated, continuing under the name "Arrow Capital Management Inc.". At a special meeting of shareholders on November 27, 2013, the shareholders of the Portfolio approved a change of manager from BluMont to Arrow.

### Related Party Transactions

As of June 30, 2014, Arrow held 500 Series A Shares and 4,500 Series F Shares of the Portfolio. The Arrow Diversified Fund owns 41,748 Series F Shares of the Portfolio, with a market value of \$450,878. This represents 1.4% of net assets of the Portfolio.

### Management Fees

Arrow receives a monthly management fee (the "Management Fee"), calculated as a percentage of the Portfolio's net asset value as of the close of business accrued each business day and payable monthly. The Management Fee rate applicable to the Portfolio is 2.00% per annum in respect of Series A Shares, 1.00% per annum in respect of Series F Shares and 2.30% per annum in respect of Series L Shares. Shareholders of Series I Shares of the Portfolio pay a negotiated management fee. For the period ended June 30, 2014, the total Management Fee equaled \$232,641 (2013 - \$323,093). The Management Fee is paid in consideration of investment management and administration services. No breakdown of such services was specified in the Management Agreement. From this Management Fee, the Manager pays fees to the investment advisor (IMFC, in its capacity as such) who provides portfolio management services to the Portfolio. All fees and expenses payable to the investment advisor for its services will be borne by Arrow and not by the Portfolio. A portion of the Management Fee paid by the Portfolio is for trailer fees paid to dealers whose clients hold Shares of the Portfolio. The trailer fees are a percentage of the net asset value of the Portfolio, calculated and payable monthly. The table below outlines the Portfolio's annual Management Fees and the trailer fees.

	Series A Shares	Series F Shares	Series I Shares	Series L Shares
Management Fees <i>(Annual Rate (%))</i>	2.00%	1.00%	Negotiable	2.30%
Trailer Fees <i>(rate as % of Management Fees)</i>	22.4%	-	-	1.2%

In addition, the Portfolio pays Arrow performance fees ("Performance Fees") equal to 20% of the amount by which the Portfolio return in a year is in excess of the high water mark (the "High Water Mark"), and no Performance Fee is payable unless an annual hurdle rate of 6% is achieved in that year. Performance Fees will be payable in all circumstances where the performance of the Portfolio exceeds that of its High Water Mark and its hurdle rate. Please refer to the Portfolio's long form prospectus dated May 14, 2014 for further details relating to Performance Fees. The High Water Mark set as of January 1, 2014 was \$12.0880 for Series A Shares, \$12.2882 for Series F Shares and \$10.00 for Series I and Series L Shares. For the period ended June 30, 2014, the Portfolio did not accrue any Performance Fees (2013 - \$4,184). Performance Fees

are calculated and accrued daily such that, to the extent possible, the share price each day will reflect any Performance Fees payable as at the end of such day. Performance Fees for the Portfolio will be calculated and accrued each day, but will only be payable following the end of the fiscal year of the Portfolio based on the actual annual performance of the Portfolio.

The Manager incurs operating expenses on behalf of the Portfolio and charges these expenses to the Portfolio. For the period ended June 30, 2014, the Manager has, in its discretion, agreed to absorb \$30,559 (2013 - \$45,853) of operating expenses associated with the Portfolio.

### Financial Highlights

The following tables show selected key financial information about the Portfolio and are intended to help the reader understand the Portfolio's historical financial performance for the past five years. This information is derived from the Portfolio's financial statements, and is represented net of expenses which have been charged to the Portfolio.

<b>SERIES A - NET ASSETS PER SHARE</b>						
For the period ended June 30, 2014 and for the years ended December 31,						
	2014	2013	2012	2011	2010	
<b>Net Assets, beginning of period<sup>1</sup></b>	\$ 10.85	\$ 10.06	\$ 11.72	\$ 12.02	\$ 10.72	
Increase (decrease) from operations:						
Total revenue	0.03	1.08	(1.33)	(0.16)	2.12	
Total expenses	(0.20)	(0.31)	(0.31)	(0.34)	(0.65)	
Realized gains (losses) for the period	(0.53)	-	-	-	(0.01)	
Unrealized gains (losses) for the period	(0.05)	-	-	-	-	
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	\$ (0.75)	\$ 0.77	\$ (1.64)	\$ (0.50)	\$ 1.46	
<b>Distributions<sup>2</sup>:</b>						
From income (excluding dividends)	-	-	-	-	-	
From dividends	-	-	-	-	-	
<b>Total distributions</b>	-	-	-	-	-	
<b>Net Assets, end of period<sup>1</sup></b>	\$ 10.23	\$ 10.86	\$ 10.06	\$ 11.72	\$ 12.02	

<b>SERIES A - RATIOS AND SUPPLEMENTAL DATA<sup>7</sup></b>						
For the period ended June 30, 2014 and for the years ended December 31,						
	2014	2013	2012	2011	2010	
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$7,257	\$12,977	\$20,896	\$26,572	\$15,252	
Number of shares outstanding	709,555	1,196,227	2,084,878	2,272,995	1,261,728	
Management expense ratio <sup>3</sup>	2.90%*	3.05%	2.79%	2.77%	5.07%	
Management expense ratio before waivers or absorptions <sup>4</sup>	3.08%*	3.50%	2.88%	3.00%	5.85%	
Portfolio turnover rate <sup>5</sup>	n/a	n/a	n/a	n/a	n/a	
Trading expense ratio <sup>6</sup>	1.04%*	0.94%	n/a	n/a	n/a	

<b>SERIES F - NET ASSETS PER SHARE</b>						
For the period ended June 30, 2014 and for the years ended December 31,						
	2014	2013	2012	2011	2010	
<b>Net Assets, beginning of period<sup>1</sup></b>	\$ 11.40	\$ 10.46	\$ 12.06	\$ 12.22	\$ 10.80	
Increase (decrease) from operations:						
Total revenue	0.03	1.14	(1.51)	(0.06)	1.94	
Total expenses	(0.15)	(0.21)	(0.20)	(0.21)	(0.53)	
Realized gains (losses) for the period	(0.41)	-	-	-	(0.02)	
Unrealized gains (losses) for the period	(0.05)	-	-	-	-	
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	\$ (0.58)	\$ 0.93	\$ (1.71)	\$ (0.27)	\$ 1.39	
<b>Distributions<sup>2</sup>:</b>						
From income (excluding dividends)	-	-	-	-	-	
From dividends	-	-	-	-	-	
<b>Total distributions</b>	-	-	-	-	-	
<b>Net Assets, end of period<sup>1</sup></b>	\$ 10.80	\$ 11.41	\$ 10.46	\$ 12.06	\$ 12.22	

**SERIES F - RATIOS AND SUPPLEMENTAL DATA<sup>7</sup>**

For the period ended June 30, 2014 and for the years ended December 31,

	2014	2013	2012	2011	2010
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$18,133	\$15,530	\$15,843	\$16,957	\$11,057
Number of shares outstanding	1,678,217	1,362,244	1,522,164	1,410,527	899,810
Management expense ratio <sup>3</sup>	1.82%*	1.98%	1.74%	1.71%	5.07%
Management expense ratio before waivers or absorptions <sup>4</sup>	2.00%*	2.42%	1.84%	1.94%	5.85%
Portfolio turnover rate <sup>5</sup>	n/a	n/a	n/a	n/a	n/a
Trading expense ratio <sup>6</sup>	1.04%*	0.94%	n/a	n/a	n/a

**SERIES I - NET ASSETS PER SHARE**

For the period ended June 30, 2014 and for the years ended December 31,

	2014	2013	2012†
<b>Net Assets, beginning of period<sup>1</sup></b>	\$ 10.30	\$ 9.30	\$ 10.00
Increase (decrease) from operations:			
Total revenue	0.03	1.08	(0.55)
Total expenses	(0.07)	(0.04)	(0.03)
Realized gains (losses) for the period	(0.32)	-	-
Unrealized gains (losses) for the period	(0.05)	-	-
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	\$ (0.41)	\$ 1.04	\$ (0.58)
<b>Distributions<sup>2</sup>:</b>			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
<b>Total distributions</b>	-	-	-
<b>Net Assets, end of period<sup>1</sup></b>	\$ 9.84	\$ 10.30	\$ 9.30

**SERIES I - RATIOS AND SUPPLEMENTAL DATA<sup>7</sup>**

For the period ended June 30, 2014 and for the years ended December 31,

	2014	2013	2012†
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$6,552	\$5,130	\$3,770
Number of shares outstanding	666,214	498,211	406,869
Management expense ratio <sup>3</sup>	0.28%*	0.48%	0.93%*
Management expense ratio before waivers or absorptions <sup>4</sup>	0.46%*	0.92%	1.24%*
Portfolio turnover rate <sup>5</sup>	n/a	n/a	n/a
Trading expense ratio <sup>6</sup>	1.04%*	0.94%	n/a

**SERIES L - NET ASSETS PER SHARE**

For the period ended June 30, 2014 and for the years ended December 31,

	2014	2013	2012†
<b>Net Assets, beginning of period<sup>1</sup></b>	\$ 9.60	\$ 8.93	\$ 10.00
Increase (decrease) from operations:			
Total revenue	0.03	0.98	(1.29)
Total expenses	(0.20)	(0.31)	(0.28)
Realized gains (losses) for the period	(0.36)	-	-
Unrealized gains (losses) for the period	(0.04)	-	-
<b>Total increase (decrease) from operations<sup>1</sup>:</b>	\$ (0.57)	\$ 0.67	\$ (1.57)
<b>Distributions<sup>2</sup>:</b>			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
<b>Total distributions</b>	-	-	-
<b>Net Assets, end of period<sup>1</sup></b>	\$ 9.03	\$ 9.61	\$ 8.93

**SERIES L - RATIOS AND SUPPLEMENTAL DATA<sup>7</sup>**

For the period ended June 30, 2014 and for the years ended December 31,

	2014	2013	2012†
Net Asset Value ("NAV") (000s) <sup>1</sup>	\$1,296	\$1,330	\$1,251
Number of shares outstanding	143,515	138,538	140,658
Management expense ratio <sup>3</sup>	3.34%*	3.41%	3.24%*
Management expense ratio before waivers or absorptions <sup>4</sup>	3.51%*	3.85%	3.34%*
Portfolio turnover rate <sup>5</sup>	n/a	n/a	n/a
Trading expense ratio <sup>6</sup>	1.04%*	0.94%	n/a

†Series A and F Shares commenced operations on May 1, 2009. Series L Shares commenced operations on February 8, 2012. Series I Shares commenced operations on September 14, 2012.

\*Ratios have been annualized.

1. The net assets per share shown for June 30, 2014 are referenced to net assets attributable to holders of redeemable shares determined in accordance with International Financial Reporting Standards ("IFRS") and are derived from the Portfolio's financial statements. The net assets per share shown for prior periods are referenced to Net Assets determined in accordance with Canadian generally accepted accounting principles ("GAAP") and are derived from the Portfolio's financial statements. The Net Assets presented in the financial statements may differ from the NAV calculated for fund pricing purposes. NAV is calculated using fair value measures as defined by National Instrument 81-106 ("NI 81-106"), where as Net Assets are calculated in accordance with IFRS/GAAP. An explanation of these differences can be found in the notes to the financial statements. Net Assets are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per share.
2. Distributions were reinvested in additional shares of the Portfolio.
3. Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated year and is expressed as an annualized percentage of daily average Net Asset Value during the year. The management expense ratio is calculated in accordance with Part 15 of NI 81-106 and therefore includes performance fees, which were previously reported separately as dollar amounts.
4. The Manager has absorbed certain expenses or waived certain fees otherwise payable by the Portfolio. The amount of expenses absorbed or waived is determined annually at the discretion of the Manager and the Manager can terminate the absorption or waiver at any time.
5. The portfolio turnover rate can indicate how actively the investment advisor manages the portfolio of investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of its securities in its portfolio once in the course of the year. The higher the portfolio turnover rate in a year, the greater the trading costs payable by the Portfolio in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Portfolio.
6. The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the year.
7. Ratios and supplemental data, where applicable, are computed using the Net Asset Value of the Portfolio.

**Past Performance**

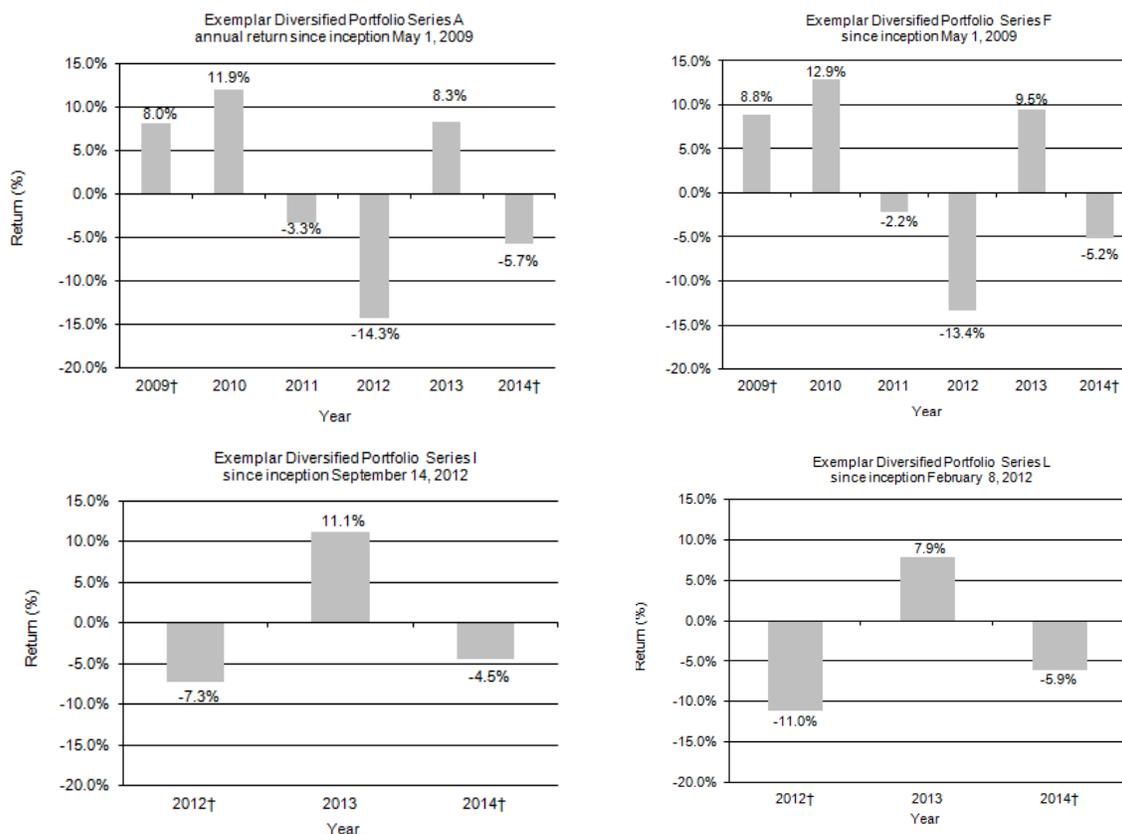
The performance information shown below assumes that all distributions, if any, made by the Portfolio in the years shown were reinvested in additional shares of the Portfolio. If you hold the Portfolio outside a registered plan, you will be taxed on distributions. Distributions of income the Portfolio earns and capital gains it realizes are taxable in the year received whether received in cash or reinvested in additional shares. No adjustment for potential tax consequences to an investor has been made to the performance information.

The indicated rates of return are historical annual compounded total returns including changes in share value and do not take into account sale, redemption, distribution or other optional charges, that, if applicable, would have reduced returns

or performance. An investment in the Portfolio is not guaranteed. Its value changes frequently and how the Portfolio has performed in the past does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The bar chart below illustrates the Portfolio's annual performance for each year shown, and indicates how the Portfolio's performance has changed from year to year. It shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of the year.



† Returns shown represent a partial year.

### Annual Compound Returns (Compound Performance)

The following table shows the annual compound total returns of the Portfolio, and for the Newedge CTA Index (the Newedge CTA Index is an equal weighted, daily calculated annually re-balanced, return index for a pool of CTAs selected from the larger managers that are open to new investment) for the period ended June 30, 2014. The Relative Performance returns show the performance of the Portfolio as compared to the benchmark.

	1 Year	3 Years	5 Years	Annualized Since Inception
Series A	(4.6)%	(5.3)%	0.4%	0.5%
Series F	(3.6)%	(4.3)%	1.5%	1.6%
Series I	(2.0)%	n/a	n/a	(0.9)%
Series L	(5.0)%	n/a	n/a	(3.5)%
Newedge CTA	0.7%	(0.5)%	0.7%	0.3%

## Summary of Investment Portfolio as at June 30, 2014

The summary of investment portfolio below includes information regarding the Portfolio as a whole. This summary may change due to ongoing portfolio transactions of the Portfolio and a quarterly update is available by contacting Arrow at 877.327.6048 or by visiting Arrow's website at [www.exemplarfunds.com](http://www.exemplarfunds.com).

Top 25 Holdings	% of Net Assets	Sector Weightings	% of Net Assets
<b>Long Positions</b>		<b>Long Positions</b>	
Live Cattle Futures August 2014	0.7%	Commodity Futures	0.8%
British Pound Currency Futures September 2014	0.5%	Currency Futures	0.7%
Euro-Bund Futures September 2014	0.5%	Index Futures	0.5%
Australia 10Year Bond Futures September 2014	0.4%	Bond Futures	1.3%
Cotton No.2 Futures December 2014	0.4%	Index Options	0.1%
EURO/GBP Futures September 2014	0.4%		
Corn Futures December 2014	0.3%	<b>Short Positions</b>	
Canada 10 Year Bond Futures September 2014	0.3%	Commodity Futures	0.5%
Wheat Futures (CBT) September 2014	0.2%	Currency Futures	0.2%
Cocoa Futures September 2014	0.2%	Bond Futures	(0.1)%
Nasdaq 100 E-Mini Futures September 2014	0.2%	Index Options	(1.3)%
S&P500 Emini Futures September 2014	0.2%		
WTI Crude Futures December 2014	0.2%		
Brent Crude Futures September 2014	0.1%		
LME Zinc Futures September 2014	0.1%		
S&P/TSX 60 IX Futures September 2014	0.1%		
Crude Palm Oil Futures September 2014	0.1%		
<b>Short Positions</b>			
S&P 500 E-mini Futures Dec/1850 Written Call Option	(0.1)%		
Euro-Bobl Futures September 2014	(0.1)%		
C\$ Currency Futures September 2014	(0.1)%		
NY Harbour ULSD Futures August 2014	(0.1)%		
Rubber Future TCOM November 2014	(0.2)%		
S&P500 Emini Futures Jul/1780 Put Option	(0.2)%		
Gold 100 Oz Futures August 2014	(0.2)%		
Soybean Futures November 2014	(0.4)%		
<b>Total</b>	<b>3.5%</b>		
<b>Total Net Assets</b>	<b>\$33,237,679</b>		