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Arrow Multi Strategy Fund

Jim McGovern,
Managing Director & CEO

February 15, 2005

Report compiled by
Levi Folk
Director of Research

onthespot™

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Data as of January 31, 2005

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Credits

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Arrow Multi Strategy Fund

Interview with Jim McGovern

By Levi Folk



Jim McGovern
Managing Director

Founder,
Managing Director & CEO,
Arrow Hedge Partners Inc.

Arrow Multi Strategy Fund begins where most mutual fund strategies leave off. Mutual funds populate the long only investment world where investors pay managers to take long positions in equity and fixed income markets. In a major departure from this theme, the Arrow Multi Strategy Fund invests in various underlying hedge fund strategies, many that remove market risk, with the goal of achieving superior risk adjusted returns.

As a fund of funds, Arrow Multi Strategy Fund is diversified across the four major hedge fund investment classes: relative value, event driven, long/short and macroeconomic. “Relative value and event driven are less market sensitive, less directional and macro and long short have more elements of market directionality. We try to combine manager risk, market risk, credit risk, liquidity risk, a whole series of risks, package them up and try and hit a desired output,” says Jim McGovern Managing Director of Arrow Hedge Partners.

McGovern and his team pursue a sophisticated strategy of vetting hedge fund managers and assembling them into a low correlation investment vehicle. “We try to do 400 to 500 basis points over short term rates,” says McGovern. And they aim for a risk profile that is in the domain of bond funds.

Hedge funds operate in the dark corner of the investment world yet McGovern demands full transparency from the hedge fund managers in which he invests gaining access that is unavailable to most investors. While this may alleviate concerns of fraud in investors’ minds, McGovern says, more importantly, “that transparency gives us an idea who is in a position to make money.”

Making money has been a greater challenge for hedge fund managers over the past two years: with most securities

having appreciated, managers who take short positions have been hurt. “Equity market neutral had a very hard time,” says McGovern because there was little differentiation between good and bad companies by the market. These strategies are market neutral, meaning they will be long one company and short another in the same sector, so performance is unrelated to market direction.

Again, McGovern utilizes the transparency by knowing where to take money off the table and where to commit new money. “We rely on these guys to clue us in as well as to where the opportunities are. If they’re telling us they are not willing to risk their own capital then why should we?”

McGovern smartly made money by taking a significant position in credit strategies. “So, we had a lot of event driven in the book. Distressed securities, high yield hedge funds, small cap deal arbitrage. We figured there would be a compression in spreads, but to be honest it was way more than we expected.”

Currently, the manager is taking profits on the credit bet. “We are going back to all the guys we made good money with in the last couple years and we are asking them what are you doing with your credit book, are you tightening in your long short exposures, are you reducing your gearing, how are you prepared for when spreads go the other way?”

Instead, he foresees a return to favour of market neutral strategies. “At some point something is going to trigger in the market where the separation of good or bad gets realized and that is where you coin it,” says McGovern.

Despite being stigmatized as risky, Arrow Multi Strategy Fund has been less volatile than most equity funds. In fact, stress testing is an important part of the management process. McGovern uses

RiskMetrics software to perform various tests on the underlying investments simulating various market conditions. He says that the perfect storm for his portfolio would be “commodities falling right of bed.” That is because many of the long/short equity managers in the portfolio have been earning money by take long positions in energy stocks.

Unlike a typical resource fund manager, McGovern has the option to hedge some of this risk. “We have added, in the last nine months, five funds that are going to do great in a stress environment.” He looks for managers that he calls “free puts,” that can make incremental money on a regular basis so they are not a drag on returns, but can earn a lot of money in extreme market environments.

Despite the transparency demanded by management and their careful attention to risk, the OSC still demands that investors that are not accredited, read high net worth, can only buy this fund in a principal protected note version.

This frivolous insurance package unfortunately costs investors an extra 130 basis point in fees annually. “If you don’t have to do it, don’t do it,” says McGovern in reference to the principal protected note. Either way investors approach this fund, Arrow Hedge Multi Strategy Fund is a low risk alternative strategy investment that will complement most mutual fund portfolios.

Jim McGovern

From 1986 to September 1999, Mr. McGovern was co-founder, President and Chief Executive Officer of BPI Financial Corporation (Canada), a public corporation listed on The Toronto Stock Exchange that, through its subsidiaries and affiliates, managed or administered over \$6 billion dollars on behalf of primarily Canadian and U.S. investors. Under Mr. McGovern’s leadership, BPI successfully introduced hedge funds to the Canadian investment market, managing over \$500 million (CDN) on behalf of high net worth investors. Mr. McGovern is very active in the international hedge fund community and also serves as director on a number of offshore hedge fund company boards.

Funds Managed:

Hedge Funds
Arrow Multi-Strategy Fund

ARROW MULTI-STRATEGY FUND

BASIC OVERVIEW

Alternative Strategies (CDN\$)

DISTRIBUTION POLICY:

Income: Annually (Dec.)

Capital Gains: Annually (Dec.)

RRSP ELIGIBILITY:

Eligible for foreign content portion of RRSP only

BENCHMARK:

100% HRFX Global Hedge Fund Index

FUND COMPANY:

Arrow Hedge Partners Inc.

www.arrowhedge.com

SALES INFO:

Min. Invest.	RRSP	Non-RRSP
Initial	\$ 25,000	\$ 25,000
Additional	\$ 5,000	\$ 5,000
PAC	n/a	n/a

Sold to qualified investors only.

Call (877) 327-6048 for further information.

FUND CODES:

FE	C\$	151	A Class
FE	C\$	158	F Class
FE	US\$	951	U Class
FE	US\$	958	G Class
FE	C\$	141	RSP Class
DSC	C\$	152	A Class
DSC	C\$	142	RSP Class

FUND LIBRARY RATINGS

Value:

n/a

Performance:

n/a

Income Stability:

n/a

Performance Rating: measure of risk-adjusted returns relative to the category.
Value Rating: measure of cost and portfolio turnover relative to the category
Income Stability Rating: the risk of distributions being cut

ONTHESPOT™ FOCUS SUMMARY

Arrow Multi Strategy Fund is a fund of fund hedge fund that invests in a broad cross section of alternative strategy funds. It is available in a straight hedge fund available to accredited investors and as a principal protected note that is sold as a closed-end investment vehicle that can be purchased by any investor. Though the fund is quite young, management targets a return stream of roughly 400 to 500 basis points in excess of U.S. treasury bills and volatility on par with bond funds. So far they have delivered.

ONTHESPOT™ QUICK VIEW

VOLATILITY 3-yr standard deviation compared to fund category range*



PERFORMANCE 3-yr return compared to fund category range*



COST MER compared to fund category range with same load structure



* manager tenure: 3 years

Lead Manager: Jim McGovern, Arrow Hedge Partners Inc.

Sub-advisors: N/A

Auditor: Pricewaterhouse Coopers LLP

Current Portfolio Manager(s)

Arrow Hedge Partners Inc. since Jan 01, 2002.

Past Portfolio Manager(s)

n/a

Objective: The objective of the Fund is to generate consistent absolute returns while limiting the overall volatility of the Fund and minimizing the Fund's correlation to major equity indices.

Strategy: To achieve its objective, the Fund will invest in hedge funds (the Underlying Funds) that employs a variety of strategies. The Fund's investments will include, but not to be limited to, funds managed by the Manager.

Loads:

Choice Front or Back

Inception Date:

1/1/2002

Total Assets (\$mil):

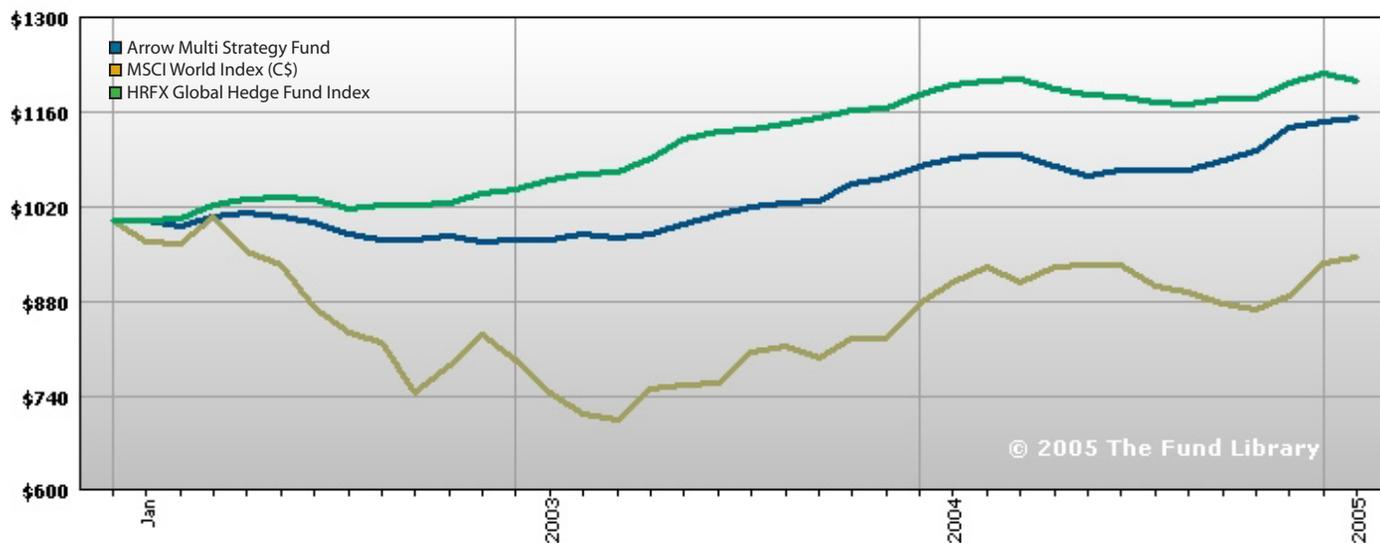
\$68.96

MER:

2.78 (includes GST)

HISTORICAL COMPOUND PERFORMANCE Data as of January 31, 2005.

This chart shows the compound performance growth of \$1000 invested in the fund, compared to the category average. Data since inception.

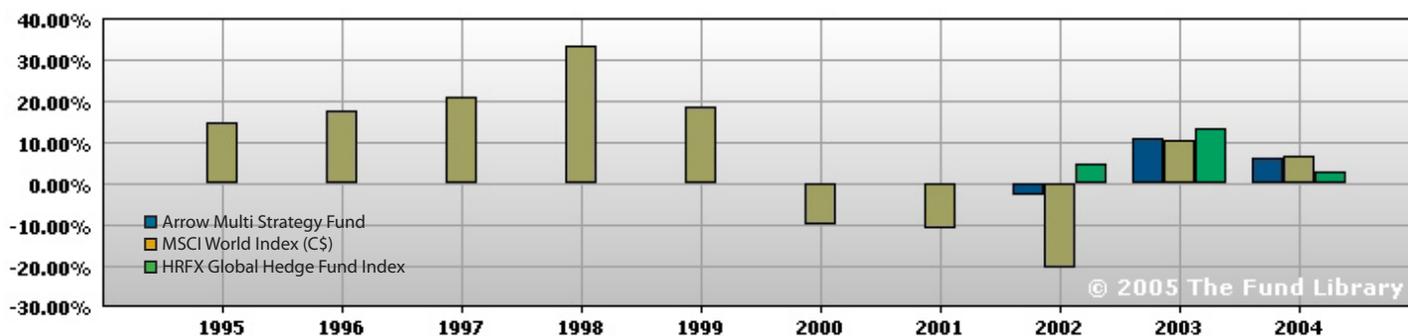
**MANAGER TENURE PERIODS**

Compound Performance	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	4 yr	5 yr	10 yr	Incept.
Arrow Multi Strategy Fund	0.52	4.40	7.35	5.48	8.84	4.82	--	--	--	4.72
MSCI World Index (C\$)	0.96	8.94	4.74	3.93	12.67	-0.79	-4.77	-4.30	7.10	-1.82
HRFX Global Hedge Fund Index	-0.95	2.21	2.88	0.58	6.72	6.46	4.84	3.85	1.91	6.32

COMMENTS ON HISTORICAL PERFORMANCE The fund has achieved highly respectable returns over the past three years with a 4.8 percent annualized return. This is a testament to the value of a well diversified hedge fund strategy as a complement to a long only portfolio of mutual fund investments.

YEAR-BY-YEAR PERFORMANCE (PAST 10 YEARS) Data as of January 31, 2005.

This chart shows the fund's calendar year performance for each of the past 10 years. Each calendar year is from Jan. 1 to Dec. 31.

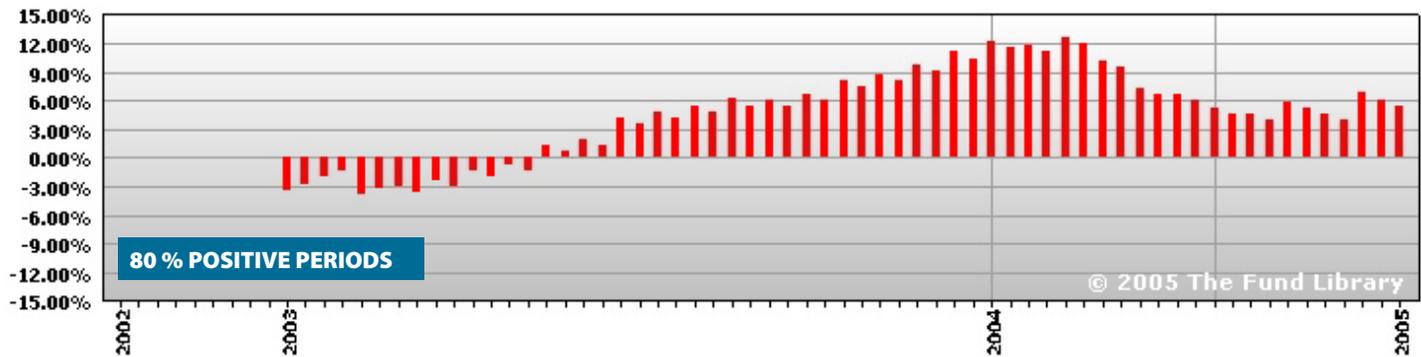
**MANAGER TENURE PERIODS**

Calendar Year Performance	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Arrow Multi Strategy Fund	6.07	11.13	-2.70	--	--	--	--	--	--	--
MSCI World Index (C\$)	6.85	10.33	-20.61	-11.25	-10.02	18.83	33.55	21.21	17.91	14.71
HRFX Global Hedge Fund Index	2.70	13.39	4.73	--	--	--	--	--	--	--

COMMENTS ON CALENDAR YEAR PERFORMANCE 2002 was the worst year on record in several decades for equity funds, yet the Arrow Multi Strategy Fund performed admirably in relation with a 2.7 percent loss vis-à-vis the 20.6 percent loss for the MSCI World Index (C\$). More recently, the fund performed in step with the strong performance in equity markets partly because management has shifted the portfolio toward long/short equity, event-driven, and credit-oriented strategies.

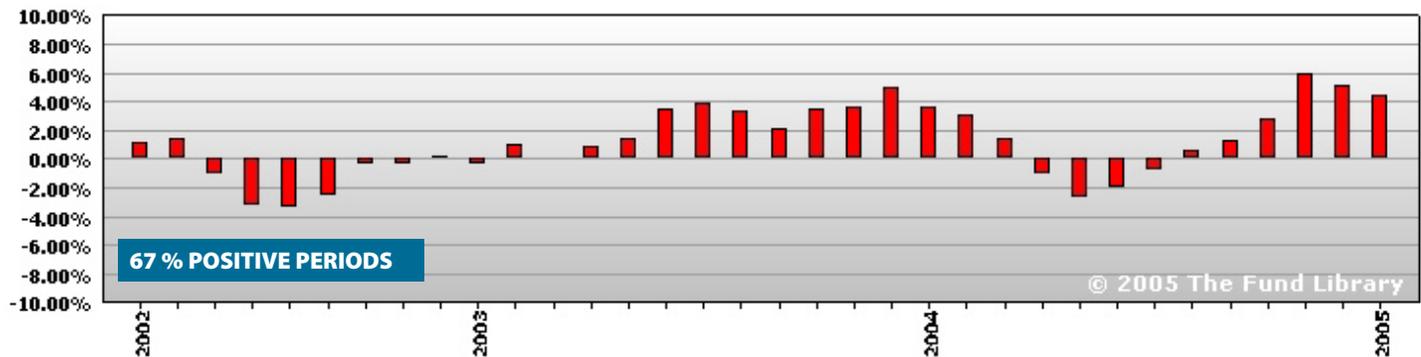
HISTORICAL ROLLING RETURNS Data as of January 31, 2005.

1-YEAR RETURNS This chart shows the fund's rolling 1-year returns since inception. A rolling 1-year return is the simple 12-month return of the fund at any given time in its history.



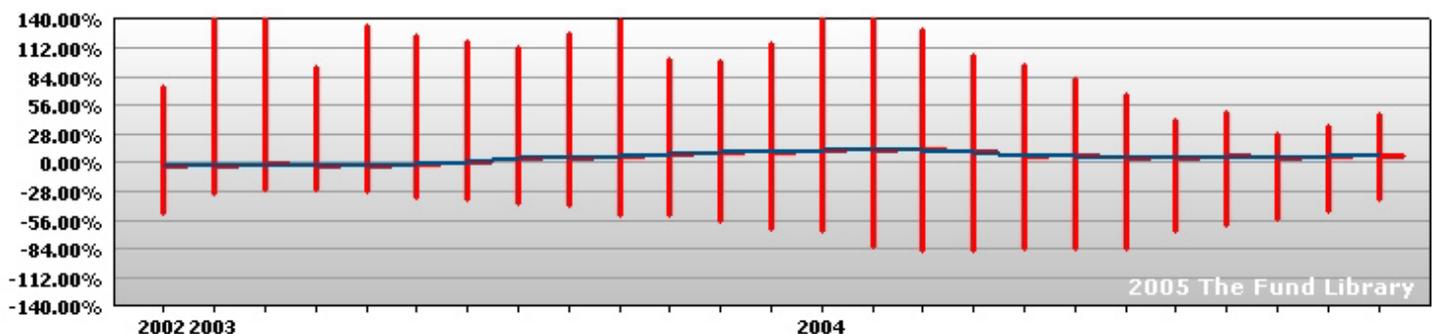
Best & Worst 1-Yr Rolling Performance	Date	1 Yr Perf
Arrow Multi Strategy Fund Best 1 Yr Performance	Mar 2003-2004	12.62 %
Arrow Multi Strategy Fund Worst 1 Yr Performance	Mar 2002-2003	-3.16 %

3-MONTH RETURNS This chart shows the fund's rolling 3-month returns since inception. A rolling 3-month return is the simple 3-month return of the fund at any given time in its history.



Best & Worst 3-Mo Rolling Performance	Date	3 Mo Perf
Arrow Multi Strategy Fund Best 3 Mo Performance	Sep-Nov 2004	5.95 %
Arrow Multi Strategy Fund Worst 3 Mo Performance	Jun-Aug 2002	-3.38 %

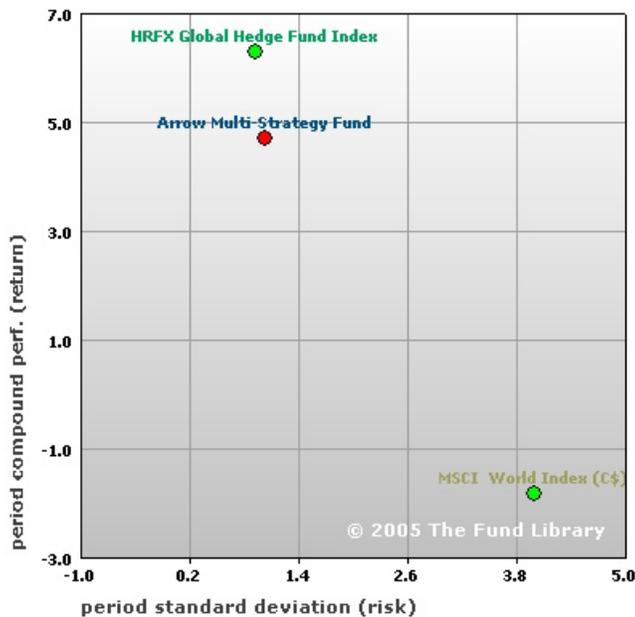
1-YEAR RETURNS WITH ROLLING RANGE FOR SECTOR PEERS This chart shows the fund's rolling 1-year returns since inception. The vertical red bars show the range between the highest and lowest return for all the funds in the category.



Performance relative to peer group	Date	1 Yr Perf	Group Low	Group High	Percentile
Best Relative Performance	Oct 2003-2004	4.66 %	-55.11 %	27.22 %	72.60 %
Worst Relative Performance	Jan 2002-2003	-2.80 %	-29.35 %	177.11 %	12.86 %
Average Relative Performance		5.06 %	-53.84 %	99.17 %	40.75 %

RISK ANALYSIS Data as of January 31, 2005.

RISK VS. RETURN CHART This chart shows the fund's risk vs. return profile compared to the rest of the funds in its class and the benchmark index. Risk is the period standard deviation and return is the period compound performance. Period is since fund inception.

**Standard Deviation** Data as of January 31, 2005.

Year	Category Average Standard Deviation (%)	Fund Monthly Standard Deviation (%)
3 Yr	0.935	1.053
5 Yr	0.924	1.039
10 Yr	--	--

Risk Metrics vs MSCI World Index Data as of January 31, 2005.

Year	Beta	R-Squared
1 Yr	0.14	0.34

Risk Metrics vs HFRX Global Hedge Fund Index

Data as of January 31, 2005.

Year	Beta	R-Squared
1 Yr	0.71	0.40

COMMENTS ON RISK PROFILE Arrow Multi Strategy Fund has posted returns over the past three years that are a strong mix of positive return performance coupled with low volatility. In fact, the standard deviation of this fund has been very low, only 1 percent on a monthly basis, far lower than most equity funds and even lower than most bond funds.

PORTFOLIO COMPOSITION — TOP HOLDINGS Data as of January 31, 2005.**ASSET ALLOCATION**

Asset Class	% of Portfolio
Equity Hedge	34.0 %
Risk Arbitrage	12.5 %
Hedged High Yield	9.5 %
Convertible Arbitrage	7.1 %
Equity Market Neutral	6.9 %
Cash	6.0 %
Global Macro	5.6 %
Distressed Securities	5.5 %
Volatility Arbitrage	4.9 %
Fixed Income Arbitrage	4.0 %
Short Seller	2.5 %
Managed Futures	1.8 %

COMMENTS ON PORTFOLIO COMPOSITION

The fund is invested across a broad cross section of hedge fund strategies, but that does not mean that management cannot allocate assets to where they think they can make money or preserve capital if the case may be. For example, management took an overweight position in strategies that benefited from a compression in credit spreads over the past few years, and reaped strong profits as a result.

More recently, assets have been directed toward equity market neutral strategies in anticipation of a return to profit in these strategies after a couple lean years.

Also, several strategies focused on being long volatility have been added as a hedge against a major correction in equity and bond markets.

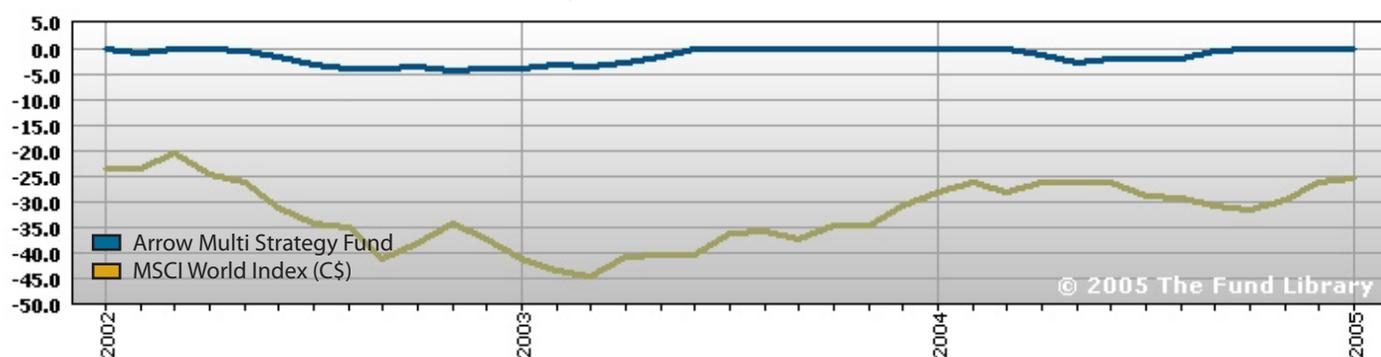
PERFORMANCE RANKINGS Data as of January 31, 2005.

This table shows the fund's placement in the performance rankings vs. its peers in the Alternative Strategy category. Simple Rank is the placement for the fund based on its uncompounded return during the period (example: Simple Rank for 4yr period is based on the 12-month performance during the calendar year 4 years ago). Compound Rank is based on the average annualized compound return of the fund since the period in question.

Period	Simple Rank	Highlight	Quartile		Compound Rank	Highlight	Quartile
1 month	89 of 166	--	3		--	--	--
3 month	58 of 165	--	2		--	--	--
6 month	54 of 159	--	2		--	--	--
YTD	89 of 166	--	3		--	--	--
1 Yr	46 of 140	ABOVE AVERAGE	2		46 of 140	ABOVE AVERAGE	2
2 Yr	37 of 91	ABOVE AVERAGE	2		34 of 91	ABOVE AVERAGE	2

DRAWDOWN ANALYSIS Data as of January 31, 2005.

DRAWDOWN CHART This chart shows the fund's history of drawdowns (the losing streaks as a percentage of the previous peak).



Maximum Drawdown	1 yr	2 yr	3 yr	4 yr	5 yr	6 yr	7 yr	8 yr	9 yr	10 yr
Arrow Multi Strategy Fund	2.77	3.85	4.12	--	--	--	--	--	--	--

COMMENTS ON DRAWDOWN CHARACTERISTICS The drawdown chart shows how much the fund loses before it recovers its value. The maximum drawdown shows the biggest loss an investor would have sustained had he or she bought in at the worst possible time.