

COR U.S. EQUITY INCOME FUND



Commentary - March 2011

Focus • Risk Management • Integrity

	1 mo	3 mons	6 mons	YTD	1 yr*	3 yr*	Ann. ITD	Cum. ITD
COR U.S. Equity Income Fund ¹	(2.2%)	3.4%	11.9%	3.4%	21.4%	(6.6%)	(10.8%)	(37.2%)
S&P 500 Total Return Index (CAD)	(0.1%)	3.7%	11.2%	3.7%	10.9%	0.5%	(3.7%)	(14.4%)

¹ The COR U.S. Equity Income Fund was formerly called the Arrow US Equity Income 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 Hedge Partners 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 Hedge Partners 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.

March saw the COR U.S. Equity Income Funds give back part of their early year gains finishing the first quarter up approximately 3.4%. While yield investors seemed to take a deep breath after a long bullish run, we continue to see a strong underlying zest for yield. However, our concern over macro factors continues to result in low net exposures.

Our job at COR Capital is to find those parts of the high yield equity market that offer investors the best opportunities to earn secure yields with the potential for dividend growth that exceeds the rate of inflation. Today, we believe that the Business Development Company (BDCs) asset class provides such an opportunity. BDCs make loans to private companies. These loans are typically secured by assets and/or real property. One example of a BDC we previously have written about is NGPC, a company that lends to private MLPs and energy companies. The yields paid on these loans tend to trade at a wide spread to comparable loans to public companies. Today, the BDC index yields approximately 8.1%.

In March, we took a meaningful position in a recent BDC IPO, Solar Senior Capital Ltd. (NASDAQ: SUNS). SUNS is a broken IPO that has traded 10% below its offering price. SUNS invests in senior bank loans to private companies and is currently set to pay a dividend north of 8%. We believe the risks associated with SUNS target investment portfolio and the pedigree of its management team make SUNS an attractive opportunity. It is our expectation that the yield on SUNS will fall as the stock price rises over the next several months when investors begin to receive their monthly dividend payments.

BDCs have many of the same trading characteristics of MLPs and REITs. They are predominantly owned by retail investors; they are serial equity issuers; and, their goal is to pay a secure, growing dividend. These characteristics provide investors a roadmap for trading success. There are currently a dozen new BDCs in registration

and we expect the asset class to see significant growth in terms of number of issuers and total market capitalization over the next two years. This is analogous to the MLP IPO market of early 2006 and the REIT market in the late 1990s.

As an equity income fund, the rapid growth of the BDC sector makes us lick our lips. Not only are we excited by the opportunity presented by SUNS, we are beginning to see a pipeline of predictable, repeatable and, most importantly, what we expect to be profitable trading opportunities (similar to what we saw in the MLP market in 2006-2007). For instance, PennantPark Floating Rate Capital Ltd (NASDAQ: PFLT), a BDC which broke its IPO price significantly just last week, has provided the funds with another trade that we are pursuing.

The institutionalization of a new income oriented asset class presents an opportunity to make outsized returns. Given our team's deep experience in the REIT and MLP markets, we believe the Equity Income Funds are well positioned to monetize today's emerging opportunity in BDCs.

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

Yours truly,
Steven A. Sugarman