

COR U.S. EQUITY INCOME FUND

Commentary - May 2011

Experience. Intelligent Investing.

	1 mo	3 mons	6 mons	YTD	1 yr*	3 yr*	Ann. ITD	Cum. ITD
COR U.S. Equity Income Fund ¹	(0.9%)	(2.3%)	7.5%	3.2%	20.6%	(9.4%)	(10.4%)	(37.3%)
S&P 500 Total Return Index (CAD)	1.0%	1.2%	8.5%	5.1%	16.3%	0.1%	(3.3%)	(13.2%)

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 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.

* Returns are annualized.

MLPs, as well as other yield-oriented equity securities, suffered a significant pullback in May as the markets reacted to global concerns about sovereign debt and weakening economic data. Fortunately, the Equity Income Funds proactive hedge portfolio and prior reduction in our exposure to MLPs minimized the fund's volatility and left us well positioned to redeploy our capital at more attractive prices.

The annual NAREIT Conference was also held in May, making this a good time to provide our latest thinking concerning the REIT sector. REIT earnings this year have confirmed our belief that recovery in fundamentals continues and is spreading to more property types. This is especially evident in the apartment sector where declining homeownership rates and limited new supply are resulting in high single-digit, property-level cash flow growth. A rebound in hotel room demand and record-low supply is expected to drive a multi-year mid-teen growth in property-level cash flows. REITs continue to enjoy gains in market share and an advantage in acquisitions due to lower cost and access to capital, especially in lodging where lending has lagged the recovery. On the private real estate side, we are seeing continuing increases in institutional demand for real estate, willingness to accept unlevered returns in 6-7% range and to invest in B-assets. Sophisticated investors, such as TIAA-CREF, continue to increase their allocation to real estate based on a relative value analysis comparing real estate to other yielding oriented asset classes. These institutional investors are going as far as to seek partnerships with public REITs (i.e. TIAA-CREFs recent \$1B+ JV with CBL on secondary market malls) to deploy capital.

This strong combination of low supply, improving demand and cost of capital advantage appear somewhat priced into the REIT sector. Therefore, we remain cautious and well-hedged, seeking to take advantage of relative value opportunities, capital market activity and capital structure arbitrage trades. The fund's portfolio only contains

a few long-biased positions, concentrated in the securities where we believe asymmetric risk-return opportunities exist. Some of the recently issued REIT converts have coupons in the 7%+ range and present attractive opportunities due to traditional convert arbitrage investors lack of familiarity with the niche REIT issuers.

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

Yours truly,
Steven A. Sugarman