

	1 mo	3 mons	6 mons	YTD	1 yr*	3 yr*	5 yr*	Ann. ITD	Cum. ITD
Arrow High Yield ¹	0.6%	3.3%	7.4%	3.3%	9.6%	10.4%	7.5%	6.1%	72.8%
ML High Yield Master II (CAD)	0.5%	4.1%	7.4%	4.1%	14.2%	11.0%	7.6%	8.7%	115.9%

¹ The Fund was initially advised by Milford Capital Management Inc. until the advisor was replaced in August 2004 by Marret Asset Management. 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.

MONTHLY RECAP

March saw the return of volatility driven by political unrest in the Middle East and the major earthquake in Japan. Despite this risk assets managed a flat to small up trade after an initial 6 – 7% correction (equities). The S&P 500 gained just 4[^] basis points in March but rose 5.92%[^] (incl. divs.) in the quarter. Intermediate Term Treasuries lost 6[^] basis points in both the month and the quarter. The broad U.S. High Yield market gained 0.42%[^] in March (YTD +3.90%) while Canadian High Yield rose 0.54% (YTD +2.40%).

Note: we will no longer report Income Trust data as it is now exclusively REITS.

COMMENTARY

It is difficult to comprehend the market activity in March given the amazing events that occurred around the world. With material military actions in Libya, Egypt, Bahrain, Yemen and Syria, protests in Saudi Arabia, the largest earthquake and tsunami maybe ever in Japan, leading to potentially multiple nuclear reactor meltdowns – yet equities corrected 6 – 7%, 10 yr. Treasury yields fell 20 basis points and both ended the month flat to up. The complacency is quite astounding as the VIX had a mere one day above 30. Our take on this is directly related to continued massive liquidity being provided by the Central Banks (especially the Fed with its QE2) and the fact that the economic data from the U.S. continues to show a modest but steady improvement. We believe the market is following the maxim of "don't fight the Fed" or in this case, if the Fed wants to put a floor under equity prices then we will buy stocks until the floor is removed. While this would appear simplistic and perhaps dangerous, we are admittedly following along somewhat cautiously. As long as the Fed is not withdrawing liquidity, WTI oil remains below \$125 and the 10yr. UST yield is below 4.25%, we think equity prices will grind higher albeit with occasional scary pull-backs.

Our views on the credit markets are similar. Credit spreads are roughly 475 basis points while run rate defaults are near 0.50%. Default rates below 1% are rare and even in the halcyon days of 2007 defaults were not this low. Default rates are obviously correlated to economic activity and historically when GDP fell below 1.5% defaults would rise. GDP is currently in the 2.5 – 3.0% range which is broadly neutral for defaults but in no way consistent with a sub 1% rate. The massive liquidity being pumped by the Fed is why defaults are so low. The Fed does not want companies failing when it is trying to lower the unemployment rate. Time will tell if liquidity is eliminating or deferring defaults. Like equities, if the Fed is protecting the bond buying public from corporate defaults, buying junk bonds at a 6.75% - 7.00% yield when cash yields are zero is a reasonable thing to do. We do note that the average yield on high yield indices is pretty much at the same level as it was in 2007 just before the credit crisis. Spreads are however, much higher due to the extraordinary low level of Treasury yields.

The last observation we will make is on gold prices. The resiliency of gold has surprised even us, despite our continued long term positive outlook. Just when it looked like gold would correct 20% based on improving U.S. data, the Middle East erupted and Japan suffered a horrible act of God. We note that gold could very well have further corrections but the main factors driving gold are worsening not improving. All of this applies to silver as well, perhaps even more so.

Our portfolios remain high quality and highly liquid providing a nice yield carry with low risk. We are trading the ranges and keeping volatility low.

Initiated: Crescent Point Energy (equity), EV Energy Partners (debt), iShares Capped Energy (equity), JMC Steel Group (debt), Kabel BW (debt), MEMC Electronics (debt), Clayton Williams Energy (debt), New Gold (equity)

Closed: Columbus Int'l. (debt), Vermilion Energy (debt).

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

[^] Indices are denoted in US dollars.