RAVEN ROCK INCOME FUND

Arrow Capital Management Inc.

Commentary - December 2011

Experience. Intelligent Investing.

We are pleased to report the conclusion of another solid year for the Raven Rock Income Fund. Our December return of +1.0% brings our 2011 return to 5.9%. The macro-driven volatility across all asset classes during the year necessitated a flexible investment approach and rigorous fundamental analysis. Our positive return validates the Raven Rock dual strategy mandate, and we continue to see both Directional and Relative Value opportunities in U.S. corporate credit.

2011 will be remembered as a year when a majority of investment strategies fared poorly. The S&P 500 was near flat, and many active managers underperformed, accentuated by jarringly large losses at some of the largest hedge funds. The markets reacted violently to the U.S. credit downgrade and continued European economic woes, causing equities to fall and credit spreads to widen significantly. High Yield credit spreads reached a low of 450 bps^ over Treasuries in April, only to blow out to 950 bps^ in October. Many investors were whipsawed by the market volatility, and macro "hedges" or punts were often costly when assets did not trade as expected. Investors who dabbled in unrelated strategies in an effort to juice returns did so at their peril.

2012 Outlook

While we have positioned the portfolio in line with our expectations for the overall macro environment, it's important to think about how the portfolio might perform in other scenarios. Due to the flexibility and breadth of our strategy, we have numerous sources of potential return that could lead to strong absolute performance.

Base Case Scenario	Attribution
We anticipate that 2012 will be characterized by volatile markets that are strongly affected by macro events. We expect the following: • A muddling economic recovery in the U.S. •Uncertainty over the sovereign debt situation in Europe • A close presidential election • Choppy equity markets with low returns •Stable Treasury prices due to investor appetite for safety • Low corporate default rate <5% • Gradually tightening credit spreads In the base case scenario, credit spread tightening on top of the high existing portfolio cash yield would produce solid returns for the strategy. Gamma trading the equity volatility exposure of our convertible arbitrage positions would generate profits. Realization of special events would contribute as well.	• Yield / Carry • Credit spread tightening •Active selection / technical trading • Gamma trading volatility exposure from convertible positions • Events -- Refinancing

[1] From March 1 2010 to August 31 2011 returns are for the Arrow RR fund (Class X), and are adjusted to reflect Class A fees.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.

^ Indices are denoted in US dollars.

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Bear Scenario	Attribution
While we think this scenario is less likely, our portfolio is designed for relative outperformance. • Recession in the U.S. • No resolution in Europe, fears of multiple sovereign defaults • Equity markets sell off, high volatility • High Yield credit spreads widen • Primary capital markets essentially close, making it much more expensive to issue new paper • Treasuries rally on a flight-to-quality trade • U.S. corporate default rate reaches high single digits • Inefficient secondary markets, poor liquidity With high yield credit spreads at a current level of 725 bps, a moderate domestic recession is already priced in. While credit spreads could certainly widen, we would expect our portfolio yield to help cushion any negative impact. Our focus on shorter maturity, high credit quality securities should also mitigate potential losses. The inefficient markets that would likely accompany this scenario would provide additional opportunities for active trading of stocks and bonds.	• Yield / Carry • Active selection / technical trading • Rho / duration exposure • Gamma trading • Equity hedges • (Credit spread widening)

Bull Scenario	Attribution
The bull scenario would generate numerous opportunities for Raven Rock returns. • U.S. economic recovery • Resolution in Europe • Growth in emerging markets • Equity markets rally • High Yield credit spreads tighten significantly • Flood of new issuance in both high yield and convertibles • Increased M&A activity • Treasuries sell off significantly, investment grade bonds punished • Corporate default rate of <2% This scenario would be very favorable for the Raven Rock portfolio, as tighter credit spreads would push bond prices higher. The new issue calendar, which has been muted for the past 6 months, could once again become a source of profit. We would see elevated potential for positive events. Finally, stronger equity markets could revalue the "free" call options embedded in our busted convertible bond positions. With an average position duration of only 2.5 years, we would be less impacted from the likely rise in interest rates that would result from this scenario.	• Credit spread contraction / bond price appreciation • Yield / Carry • Active selection / technical trading • Events -- M&A, refinancing • New Issue trading • Out-of-the-money convertible underlying stock appreciation • (Rho / duration exposure)

The diversity of sources of return for the Raven Rock portfolio should enable us to perform in a range of macro scenarios. As we demonstrated during the second half of 2011, we are able to maintain our discipline and generate investment returns in the face of a negative market environment. The U.S. corporate credit markets currently offer excellent opportunity for returns, especially in the higher quality non-investment grade credit range that has always been our sweet spot. An uncertain and volatile market backdrop necessitates an investment strategy with a clear path to returns and a focus on preservation of capital. We look forward to stewarding your investment assets through another year.

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

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