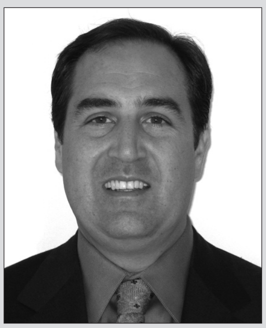
REPRINTED FROM JUNE 23, 2008

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

# The Arrow Funds & Alternative Investment Solutions



JOSEPH BARRATO is CEO, Director of Investment Strategies and a founding member of Arrow Investment Advisors, LLC, the advisor to Arrow Funds. Formed in 2006, the company's vision is to manufacture and distribute alternative investment solutions for financial intermediaries and their clients. His responsibilities include marketing, investment strategy, and research and development. Prior to Arrow, Mr. Barrato spent five and a half years at Rydex Investments. He was positioned at the helm of Rydex research, where he educated financial intermediaries on how to use Rydex Funds. He created fundamental and technical research tools and developed momentum models with Rydex sector funds. As the Director of Product Development, he was responsible for researching new strategic opportunities, as well as creating high-quality investment products and services. Prior to Rydex, Mr. Barrato spent 11 years at the Federal Reserve Board of Governors. As a Financial Analyst, he assisted economists and analyzed monetary aggregate data. As a Senior Financial Examiner, he advised Fed officers and Board officials on financial, operational and managerial enhancements. He holds a Bachelor's degree in Business Administration from The George Washington University, where he majored in Finance and minored in Accounting.

**TWST: Would you tell us about your firm? What changes have been made over the last year or so and what do you do there?**

**Mr. Barrato:** Arrow Investment Advisors is a privately owned registered investment advisory that was formed in 2006. Arrow's vision is to manufacture, distribute and manage alternative investment solutions for financial intermediaries and their clients. Members of our executive team worked together for a number of years as a team, developing and distributing mutual funds, exchange traded funds (ETFs), variable trust funds and wrap programs.

Arrow Funds is one of the fastest-growing investment management companies in the industry. We launched our first product, the Arrow DWA Balanced Fund (DWAFX/DWATX), in August 2006, the Arrow Alternative Solutions Fund (ASFFX/ASFTX) in October 2007 and the Arrow DWA Tactical Fund (DWTFX/DWTTX) in May 2008. We've had great success with these products; we've raised more than $380 million in less than two years.

I'm a founding member, CEO and Director of Investment Strategies.

**TWST: That's an amazing growth rate.**

**Mr. Barrato:** It is. We are thrilled with the success of our Fund family. Each of our Funds has grown this year, despite market conditions. We continue to be committed to offering portfolio solutions for the ever-changing capital markets. Each of the products we have developed was a direct response to our clients' requests. Arrow may be a young firm, but its management team is very experienced. The Arrow founders were the original product development team at Rydex Investments. We worked together for years and created new business lines that helped Rydex raise more than $5 billion in assets.

Arrow Funds partnered with Dorsey Wright & Associates (DWA) on the Arrow DWA Balanced Fund, which, in addition to being Lipper-ranked Number 1 in its category for calendar year

2007, was also among the top 2% of funds in its Morningstar category in 2007 — and has remained there through May 2008.

We co-developed the investment strategy for the Fund with Dorsey Wright. DWA is using their proprietary research and their technical expertise to execute the investment strategy. Our partnership with DWA allows us to provide investors with another way to benefit from technical analysis. I believe that their innovation as well as their expertise in the technical analysis space will be critical in the success of our Funds. We are hoping to replicate that success with other products, including the recently launched Arrow DWA Tactical Fund.

**TWST: Let's talk about the Arrow DWA Balanced Fund. How has it been doing and what are the Fund's investment approaches?**

**Mr. Barrato:** The Fund's strategy was designed to respond to market changes with the technical expertise of Dorsey Wright. The investment strategy provides broad diversification across four market segments: US equities, international equities, fixed income and alternative assets. In addition to that, it provides exposure to five rotation strategies. For US equities, for example, two of the rotation strategies are sector rotation and style rotation. We also have an international rotation strategy, a fixed-income rotation strategy and an alternative asset rotation strategy. The goal of each rotation strategy is to systematically identify and provide exposure to leading strategy components on an ongoing basis. We use ETF instruments as the underlying components to provide exposure for the rotation strategies.

Our tactical approach works by overweighting and underweighting market segments, rotation strategies and ETF components at different times in response to the changing patterns of returns available in the markets. It employs a systematic buy and sell discipline. That systematic methodology has worked very well since we launched the Fund (8/7/06). The Fund's average return is about 14% compared to the S&P 500, which is about 6%. In 2007, its first full year out, it was ranked the number one fund in its Lipper category. We don't know if that's ever happened before. We knew from backtesting the strategy that it delivered an average annual return of 10% with a 10% standard deviation going back to 1999. Since our launch, the live track record has matched up with the simulated returns. With strong returns in late 2006 through October 2007, effectively protected capital since October 2007 in an extremely volatile market.

**TWST: The Arrow DWA Balanced Fund uses your tactical asset allocation model?**

**Mr. Barrato:** That is correct. While many financial professionals have viewed Harvard and Yale's portfolio changes as cutting edge, these endowment managers were really just putting into practice the evolving theories on asset allocation taught in their respective universities. The Arrow DWA Balanced Fund allows individual investors to gain exposure to sophisticated asset allocation strategies similar to those of the investment management teams at Harvard and Yale. Yale's endowment guru, David Swensen, argues that an investor has three controls over investment performance: asset allocation, portfolio strategy and security selection.

*"Our tactical approach works by overweighting and underweighting market segments, rotation strategies and ETF components at different times in response to the changing patterns of returns available in the markets. The Fund's average return is about 14% compared to the S&P 500, which is about 6%."*

Our asset allocation provides exposure to four market segments with targeted exposure to five distinct investment strategies. Our portfolio strategy uses relative strength to reallocate the portfolio segments, within certain bands, to stay responsive to market conditions. For security selection, we emphasize low cost ETFs.

The tactical allocation model provides exposure to five rotation strategies including sector rotation, style rotation, international rotation, fixed-income rotation and alternative asset rotation. The goal of each rotation strategy is to systematically identify and provide exposure to leading strategy components on an ongoing basis. These models are then managed with a tactical overlay. 60% of the model is dedicated to providing a minimum exposure to each of the five rotation strategies so the model has the flexibility to underweight or overweight each strategy.

For instance, the Fund could have between 7.5% and 47.5% exposure to the sector and style rotation strategies; between 10% and 40% exposure to the international rotation strategy; between 25% and 65% exposure to the fixed income rotation strategy and between 10% and 40% exposure to the alternative rotation strategy.

When I compare the portfolio exposure of each of the five rotation strategies to today's exposure they look very similar, but the ride along the way was very different for each. When we launched the Balanced Fund, the international rotation strategy component represented 23% of the portfolio. In October 2007 it peaked, representing 37% of the portfolio. At that time, the overlay to our international rotation exposure represented 69% of our tactical allocation, and the growth rate of our international exposure was 1.81 times greater than the performance of the MSCI EAFE Index.

Today, 21% of the portfolio has international exposure. Between October 2007 and May 2008, the MSCI EAFE had fallen 14%. Since the peak in October, we've reduced the portfolio's international exposure by 43%. The tactical model gives the strategy the flexibility to change our portfolio weighting as the market changes. In our case, the relative strength screens will drive the investment decisions. The strategy will move into rotation strategies exhibiting positive relative strength and underweight those with negative relative strength. A non-tactical or strategic model may have a constant exposure to its international position and that exposure will rise and fall with that asset class. Our tactical model systematically put the brakes on its international exposure from October 2007 to May 2008; it did so 3 times faster than the falling international markets.

**TWST: Tell us about the technical analysis that Dorsey Wright & Associates provides and your relationship with DWA?**

**Mr. Barrato:** Dorsey Wright is the sub-advisor for the Arrow DWA Balanced Fund and the Arrow DWA Tactical Fund. DWA is well known for their research and technical analysis capabilities. They provide daily in-depth reports on the markets to more than 100,000 financial intermediaries. They are the industry's evangelist on using technical research to manage financial assets.

We are using technical analysis to execute the Fund's investment strategy. Technical analysis is a method of evaluating securities by analyzing statistics generated by market activity (for example, past prices) in an effort to determine probable future prices. This methodology does not attempt to predict the future; it simply reacts to pattern changes in the marketplace at any given time. This methodology allows the Fund to be extremely adaptive to current market conditions.

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The investment strategy is 100% systematic. We designed our process to remove the portfolio managers' emotions and biases, which in some cases can be detrimental to the long-term performance of an investment strategy.

| Market Time Periods (Through 5/31/2008) | Stocks (S&P 500) | | Bonds (LB Agg .Bond) | | 60% Stock & 40% Bond | | Hypothetical DWA Balanced Strategy | | Hypothetical DWA Tactical Strategy | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Return | Risk | Return | Risk | Return | Risk | Return | Risk | Return | Risk |
| 1999 | 21.0% | 13.1% | -0.8% | 2.7% | 12.1% | 8.5% | 21.7% | 12.0% | 36.3% | 17.2% |
| 2000 | -9.1% | 17.1% | 11.6% | 2.8% | -1.2% | 10.8% | 7.0% | 12.5% | 3.7% | 21.8% |
| 2001 | -11.9% | 19.9% | 8.4% | 3.8% | -3.6% | 10.6% | -1.3% | 8.2% | -4.0% | 6.8% |
| 2002 | -22.1% | 20.7% | 10.3% | 3.8% | -9.7% | 10.1% | 1.0% | 7.3% | 0.6% | 8.1% |
| 2003 | 28.7% | 11.4% | 4.1% | 5.3% | 18.3% | 6.9% | 18.2% | 8.3% | 22.6% | 9.6% |
| 2004 | 10.9% | 7.3% | 4.3% | 4.0% | 8.3% | 4.8% | 15.0% | 7.2% | 15.9% | 10.7% |
| 2005 | 4.9% | 7.9% | 2.4% | 3.1% | 3.9% | 4.7% | 11.7% | 8.5% | 16.2% | 11.8% |
| 2006 | 15.8% | 5.6% | 4.3% | 2.7% | 11.1% | 3.9% | 15.4% | 8.3% | 22.9% | 12.6% |
| 2007 | 5.5% | 9.7% | 7.0% | 2.6% | 6.1% | 5.5% | 15.3% | 10.3% | 15.0% | 14.0% |
| 1 Year | -6.7% | 11.3% | 6.9% | 2.7% | -1.5% | 6.4% | 9.4% | 12.6% | 5.2% | 16.8% |
| 3 Years | 7.6% | 8.8% | 4.3% | 2.8% | 6.3% | 5.0% | 13.7% | 9.3% | 17.9% | 13.1% |
| 5 Years | 9.8% | 8.5% | 3.8% | 3.6% | 7.4% | 5.0% | 13.8% | 8.5% | 16.8% | 12.0% |
| Worst 3 Years (4/1/00 – 3/31/03) | -16.1% | 17.6% | 9.8% | 3.4% | -6.0% | 9.4% | -0.5% | 8.3% | -2.8% | 12.5% |
| Best 3 Years (4/1/03 – 3/31/06) | 17.2% | 8.8% | 2.9% | 4.1% | 11.3% | 5.5% | 18.3% | 8.1% | 22.1% | 11.3% |
| **1/1/1999 – 5/31/2008** | **3.1%** | **13.7%** | **5.6%** | **3.5%** | **4.3%** | **7.8%** | **10.9%** | **9.3%** | **13.1%** | **13.3%** |

**Performance displayed represents past performance, which is no guarantee of future results.** Please see the appendix for additional information and source data.

The relative strength screens drive the investment decisions. The strategy moves into rotation strategies and ETFs exhibiting positive relative strength and avoids those with negative relative strength. Relative strength measures how one security or asset class is doing compared with another. In a practical application, relative strength generally allows you to let your winners run and cut your losses short. Our methodology allows the Fund to be extremely adaptive to current market conditions.

**TWST: Tell us how the Balanced Fund has responded to changing market conditions during the last 12 months and how you have been able to respond to the current market climate?**

**Mr. Barrato:** When we launched the Fund, our relative strength model called for exposure to REITs and gold in our alternative portfolio. Today, we still hold gold and the cumulative return of the initial trade is 38%. Our REITs position is another story — if we had held it, the returns would have been flat. However, in June 2007, the strength of REITs in the alternative model dropped. After holding it for 310 days, we sold it for a 12% gain. The technical model traded into a currency and then a commodity ETF. From the point of our sale to date our REIT position was down 11%; the combined trade into currency and commodities resulted in a 37% gain. These trades have resulted in a 54% gain from 8/7/06 until 5/28/08. A strategic model would have never sold that REIT position. That's the beauty of a tactical model.

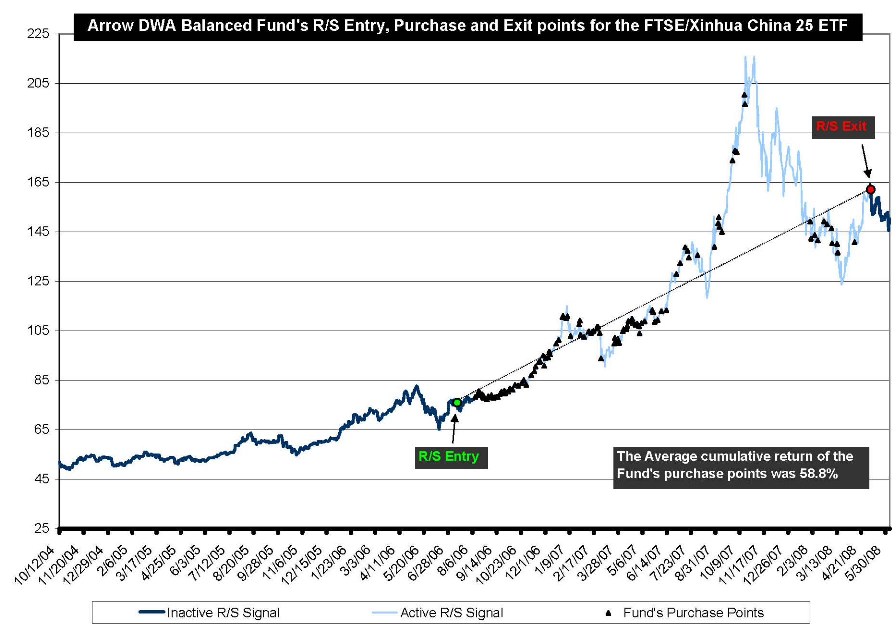
Keep in mind that when we launched the Fund, our allocations were based on the historical track record of our model's backtest. The strategy originally took a position in REITs in May 2003 and when we initiated our first Fund transaction for the position, it was already up 125%. The relative strength model lets the winner run and removes the losers fast. By analyzing the initial trade, which took place when the model turned, we know that there have been 27 changes. Nineteen of these were positive and were held for 275 days on average. The negative trades were held on average for 104 days. The average return of the positive trades was 16% compared to 7.2% for the negative trades.

Another position we held at the time of the Fund launch was China. The timing of this purchase lined up very nicely since a couple of days before the launch the relative strength signal turned favorable. This position was sold in May 2008 and from its initial purchase, it delivered a cumulative return of 103%. The average cumulative performance over the 635-day holding period was 37%, but during the start of this magical ride, there was a 21% correction.

**TWST: This occurred during the Shanghai collapse?**

**Mr. Barrato:** Exactly, and a lot of clients were questioning why we were still in China. We didn't move out because the strength of China relative to its universe was still strong. Investors who let emotions take over would have missed out on a 138% run between March 2007 and the next peak in October 2007. The proverb "patience is a virtue" came into play for us after first quarter 2007. We sold our position in May of this year and from the October 2007 peak it was down almost 24%. But a relative strength model rarely gets

*"Before an ETF makes it into our model we test to see if the underlying ETFs are tracking the indices to which they are benchmarked. This is especially important since ETF manufacturers charge a fee to deliver the performance of the corresponding basket — we compare the performance of the index less the corresponding ETF fees. Nine times out of 10 they track beautifully."*

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you out at the top. From the peak to the sale, the average cumulative performance was 3.7%. Our investors benefited from the long-term hold of our China position and along the way the management team took advantage of these drawdowns to reduce the average cost of the China position. We tell our investors to take advantage of the dips and as we do every day, especially when you are buying instruments that are more likely to be winners over the long run.

*"The new Fund will still invest among five rotation strategies using DWA's relative strength discipline. However, the exposure range to each rotation strategy was expanded to give DWA more flexibility to focus its exposure. The DWA Tactical Strategy may hold between 15% and 95% in equities, 0% to 50% in fixed income and between 5% and 40% in alternative assets."*

**TWST: You are also, I see, using a lot of exchange traded funds now. Why have ETFs become much more important to your investment process?**

**Mr. Barrato:** I think we are one of the first fund companies that exclusively used ETFs instruments to execute a technically based tactical investment strategy. ETFs are rapidly becoming a staple investment tool for a wide spectrum of investors because they combine the advantages of stocks with those of index funds. ETFs are designed to closely follow the index they track.

Like stocks, ETFs are liquid, flexible and easy to trade. Like index funds, they provide diversification, market tracking and low expenses. Like mutual funds, ETFs are baskets of securities or instruments and they represent different asset classes and investing styles. Unlike mutual funds, ETFs are not subject to a manager's impact and they rarely have style drift.

ETFs are an ideal instrument to build and execute models with. Today investors have more than 750 ETFs from which to choose. Someone who wants to build a sector rotation strategy can choose from more than 250 sectors in building their model. The domestic sector market has been sliced and diced to offer many solutions including cap weight, equal weighted, leveraged, value weighted and soon, international sectors. We've narrowed our sector model universe down to 10 sectors. The Arrow DWA Tactical and Balanced Funds will typically hold three sector ETFs that are exhibiting positive relative strength. Our sector ETF universe will primarily consist of ETFs that track the Dow Jones indices.

Before an ETF makes it into our model we test to see if the underlying ETFs are tracking the indices to which they are benchmarked. This is especially important since ETF manufacturers charge a fee to deliver the performance of the corresponding basket — we compare the performance of the index less the corresponding ETF fees. Nine times out of 10 they track beautifully. And in some cases, when you take out the ETF fees on the index and then you compare the ETFs, the ETFs actually outperform the index. ETFs that don't track are excluded from our universe. To avoid overlap, we stratify the universe to align the corresponding index methodology. We compared the Dow Jones, MSCI, S&P, PowerShares and other sector groups to see how they would respond to the technical model. I caution investors from just selecting ETFs with the lowest fees. Logic would dictate that models built with products that have lower fees would outperform those with higher fees, but in some cases we've found the opposite. We are not afraid of using ETFs with higher fees if they add value to our rotation models. We are also not afraid of adding new ETFs to our models if they meet our selection criteria.

Our testing has narrowed the universe of the rotation models to 60 ETFs and the Fund's relative strength signals will select 14 ETFs to hold. Both the Arrow DWA Balanced Fund and the Arrow DWA Tactical Fund, which launched on May 30, 2008, will use the same universe of ETFs.

**TWST: It's a little unusual to launch a fund that's more aggressive at a time when most investors are going more defensive. Tell us about the DWA Tactical Fund and the reasons why you decided to go with this Fund?**

**Mr. Barrato:** That's a great example of why it's so important to listen to the marketplace. We did not want to ignore a $300 billion market. What we've been hearing from our investors is pretty simple. The new Fund is a direct response to our clients' requests for a more aggressive approach to the Arrow DWA Balanced Fund.

If you look at the mutual fund industry today, there is $9.1 trillion in mutual funds and $1.2 trillion of that is in asset allocation funds.

When you drill down even farther, 85% of the AUM is in moderate or aggressive asset allocation strategies. Why is that? Advisors typically use asset allocation strategies as anchors for those clients without enough assets to build a diversified portfolio.

A lot of our clients are demanding an aggressive strategy. Many of our clients prefer to invest in a product without dedicated exposure to fixed income. It gives them flexibility to select or implement their own fixed-income strategies that are tailored around their clients' risk profiles. Some of their clients don't need fixed-income exposure at this juncture in their lives, so the Fund is a good solution for them as well.

The DWA Tactical Fund will still invest among five rotation strategies using DWA's relative strength discipline. However, the exposure range to each rotation strategy was expanded to give DWA more flexibility to focus its exposure. The DWA Balanced Strategy could hold between 25% and 65% in equities and fixed income and between 10% and 40% in alternatives assets. The DWA Tactical Strategy hold between 15% and 95% in equities, 0% to 50% in fixed income and between 5% and 40% in alternative assets.

*"Our game plan with the Tactical Fund is to give advisors the opportunity to have a product that can provide a more focused tactical asset allocation strategy. While it has the ability to have fixed-income exposure, the nature of this exposure is more a reaction to the market."*

The Tactical Fund has more flexibility with a tactical overlay among the five rotation strategies. Consequently, it will be more volatile when compared to the Balanced Fund. Its goal is to provide greater returns for investors over the long term. The strategy, however, can get defensive and have as much as 50% in bonds and 40% in alternatives; it's just not forced to have large exposures in these areas.

We were able to hypothetically replicate the strategy back to 1998. We tested how the strategies adjusted based on the new portfolio constraints. The average annual return was approximately 13% and its risk was 13%. The DWA Tactical Fund Strategy delivered around 3% more return and risk per year compared to the DWA Balanced Strategy. Now Arrow gives the intermediary two tactical core options.

**TWST: What about the risk factors? How do you attempt to control risk at the sector level, at the portfolio level and at the individual security level?**

**Mr. Barrato:** Most portfolio managers define a benchmark and manage a portfolio around the benchmark's risk and performance targets. Our driver for ETFs within the rotation model as well as the weighting of the rotation strategies is relative strength.

Our relative strength strategy is designed to adapt to changing market conditions. It follows trends — we are going to adapt as the market trends change. While these structural changes in leadership between and within market segments are occurring, the strategy may lag as it adjusts. However, we've discovered that the volatility of the balanced and tactical strategies remained the same in bull and bear market environments. The volatility of our benchmarks and of the S&P 500 increased in the bear markets and dropped in the bull markets. The strategy's beta or relative risk shrinks in a bear market environment and it dramatically increases in bull market environments. Our benchmark did the opposite. You don't want to move with the markets when they are going down. Therefore, minimizing exposure to the correlation effect of traditional investments in bear markets is instrumental in achieving wealth preservation.

This is why we don't really worry about targeting a benchmark. Risk management is naturally happening within the portfolio by overweighting and underweighting different exposures.

**TWST: Explain how rebalancing is used as a part of this rotational strategy. It seems to me that you don't change because something is getting weaker — you change because you find something that's doing much better. Is that correct?**

**Mr. Barrato:** To some extent, but both movements are part of the relative strength allocations. Rebalancing typically refers to managing to the initial weights. We actually reallocate within each of the strategies, but each strategy is weighted against each other based on its own relative strength. The minimum exposure constraints ensure dedicated exposure to all five strategies, enabling the Fund to consistently offer a diversified portfolio. The maximum exposure constraints provide the flexibility to make tactical allocations among the rotation strategies. It's a disciplined and systematic investment approach.

The nice thing about using ETFs is that they are all index-based, so we were able to hypothetically replicate the five rotation strategies back to 1998. We tested how the strategies adjusted based on the technical model.

Within a five-year period each rotation strategy assumed a leadership position. Sector rotation led the backtested portfolio in 1999. In 2000, style rotation was the leader. Between 2001 and 2003, alternative, fixed income and international rotation each led the backtested portfolio. Over the last two and a half years, style, international and alternative rotation components assumed a leadership position.

The strategy was designed to dynamically respond to the changes in the market. There is no set date for when the reallocation occurs; rather, it occurs when the systematic relative strength screens developed by Dorsey Wright indicates it is time to reallocate.

**TWST: What do you think is giving Arrow its edge? What are the differentiators that distinguish your approach compared with other firms?**

**Mr. Barrato:** I think it stems from educating our clients and listening to the marketplace. We are passionate about helping our clients and wanting our clients to be successful, about providing real solutions. "Targeting portfolio solutions" may be our tagline, but we live and breathe that every day.

assets. A strategic asset allocation attempts to blend a portfolio of asset classes based on their expected returns. SAA periodically rebalances in order to meet its expected return and the investor's risk objectives.

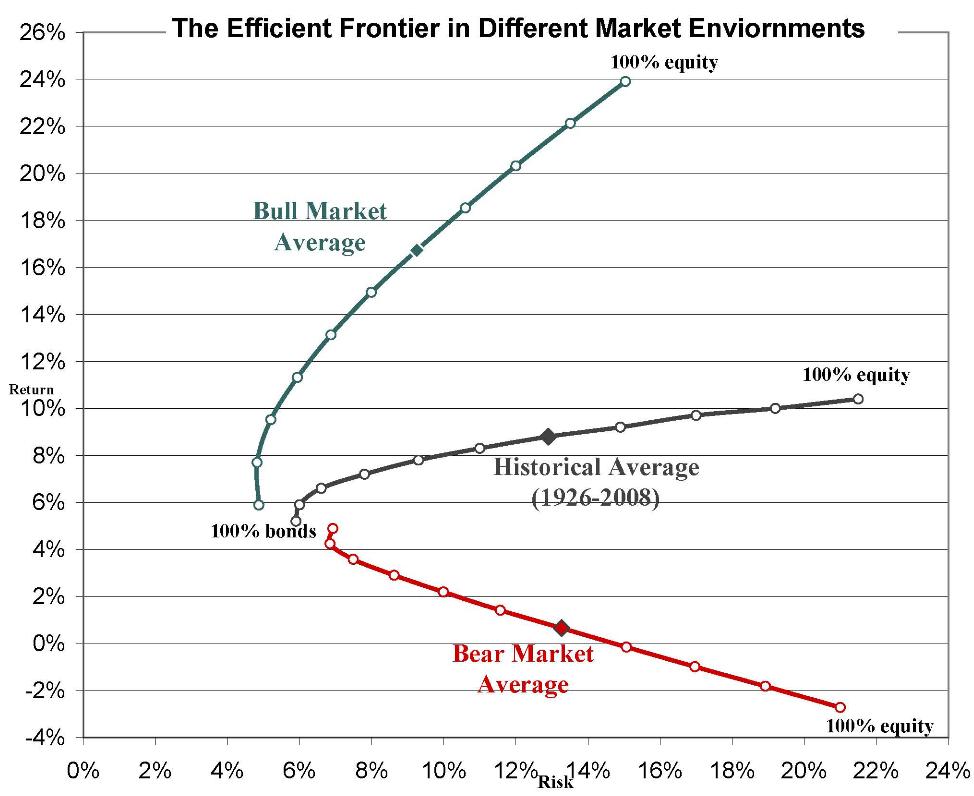
Tactical asset allocation, or TAA, refers to active strategies that seek to enhance portfolio performance by shifting the asset mix in a portfolio in response to the changing patterns of return and risk.

Both approaches are subject to market risks. The risks of an SAA approach include the expected return forecasts, its reliance on stocks and bonds and the lack of flexibility to respond to market changes. The risks of a TAA approach include strategy risk — most of these strategies rely on identifying market patterns, so they could suffer when the market is trendless.

*"We focus on creating value for our shareholders by offering investment strategies that seek to enhance returns and mitigate risk. We believe asset management is in the midst of profound evolution. Forward-thinking advisors and savvy investors have learned that making the most of today's markets demands a rare combination of intelligence, instinct and innovation."*

Though it is not widely discussed in the industry, many financial intermediaries utilize technical analysis to manage client portfolios. Our Funds provide an investment option aligned with how these intermediaries manage money. Our Funds are also an actively managed alternative to strategic asset allocation (SAA). Some intermediaries use our Funds as a complement to the SAA products they're using. Active management using technical analysis is the single most important factor to achieving our investment objective as we believe that diversification alone is not adequate.

A strategic and tactical approach each has its own unique portfolio attributes and risk characteristics. The policy allocation to stocks and fixed income was the most important asset management decision. The reason was that more stocks equaled more risk and more return. The investor's risk tolerance would drive their exposure into riskier

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The portfolio attributes of each approach could potentially lower portfolio volatility depending on their diversification mix. SAA strategies offer relative returns and are better positioned for bull markets. TAA strategies offer absolute returns because they are responsive and broadly diversified, which is why these strategies are typically better positioned for all market environments.

Through our research, we have found that a market can go down or remain sideways over extended periods of time. The successful distribution of Ibbotson's data has shaped the expectation of many strategic asset allocation models. If you take the equity and bond returns since 1926 and you blend those returns to create a 60% equity and 40% bond portfolio, you will see nine distinct bull and bear market cycles.

If you look at the historical average of a 60-40 portfolio between 1926 and 2007, the average return is about 8.7% — that's a nice, healthy return. The average performance during bull markets is 17.9%. Typically a bull market lasts about 66 months. Everybody is very happy when that's happening. A bear market usually lasts 41 months and the average performance of a 60-40 portfolio is 0.7%; that's before accounting for inflation and fees.

The implication of negative or flat returns for an equity and bond portfolio in those environments is far reaching. In some cases, it has been sobering to those who influence asset allocation planning, which is why more advisors and planners are moving toward the tactical and absolute return strategies that Arrow offers.

**TWST: Is there anything that you wish to add?**

**Mr. Barrato:** Our game plan with the DWA Tactical Fund is to give advisors the opportunity to have a product that can provide a more focused tactical asset allocation strategy. While it has the ability to have fixed-income exposure, the nature of this exposure is more a reaction to the market. A tactical portfolio that has the ability to get defensive is important in a secular bear market. Going back to the 1900s, we've had three secular bear market environments: 1902-21, 1929-49 1966-82. I believe we entered a new secular bear in 2000. If this is the case, investors who want to survive this need to start acting the way endowments do.

In the current decade, equities have actually provided more risk and less return than bonds, mirroring what happened in the 1930s and the 1970s. In fact, unless equities have a dramatic rally, this will be the first decade since the 1930s that the broad equity market will underperform long-term government bonds.

Allocation to alternative assets is a strategy that many endowment managers, e.g., Harvard and Yale, are utilizing today. Prior to 1999, Harvard's investing was strictly limited to US stocks, bonds and cash. Since 1999 they gradually started to shift away from traditional assets toward "absolute return" assets. Today, Harvard allocates 17% toward alternative assets (most endowments are allocating between 10% and 25%). These asset classes have the potential to deliver "equity-like" returns. They have an added benefit, however. Because they are not correlated with US equities, they cushion the portfolio against losses when the domestic stock market goes through its inevitable down cycles.

| Time | # of | Equities | | Bonds | | 60% Equities & 40% Bonds | | Inflation |
|---|---|---|---|---|---|---|---|---|
| Period | Months | Return | Risk | Return | Risk | Return | Risk | |
| 1/1926-8/1929 | 44 | 34.1% | 19.9% | 3.9% | 3.6% | 22.2% | 11.5% | -0.1% |
| 5/1936-2/1937 | 10 | 45.7% | 13.6% | 6.6% | 2.6% | 29.5% | 7.5% | 3.8% |
| 12/1942-5/1946 | 42 | 29.0% | 16.4% | 4.3% | 2.1% | 19.0% | 9.6% | 2.8% |
| 7/1949-7/1956 | 85 | 26.4% | 15.0% | 1.0% | 3.6% | 16.3% | 8.6% | 2.0% |
| 4/1958-11/1968 | 128 | 12.9% | 12.9% | 1.3% | 5.2% | 8.7% | 7.6% | 1.9% |
| 12/1970-11/1972 | 24 | 19.2% | 13.0% | 10.4% | 8.2% | 15.5% | 8.8% | 3.5% |
| 12/1975-11/1980 | 60 | 14.5% | 16.6% | 5.1% | 8.6% | 10.9% | 11.3% | 9.1% |
| 7/1982-8/1987 | 62 | 29.0% | 19.0% | 16.2% | 7.8% | 24.1% | 12.7% | 3.2% |
| 3/1989-8/2000 | 138 | 18.4% | 15.9% | 8.5% | 4.3% | 14.6% | 10.2% | 3.1% |
| 9/2004-10/2007 | 38 | 13.4% | 8.3% | 4.0% | 2.8% | 9.6% | 4.9% | 3.1% |
| Bull Markets-Average | 66 | 25.5% | 15.8% | 6.4% | 5.1% | 17.9% | 9.8% | 3.3% |

| Time | # of | Equities | | Bonds | | 60% Equities & 40% Bonds | | Inflation |
|---|---|---|---|---|---|---|---|---|
| Period | Months | Return | Risk | Return | Risk | Return | Risk | |
| 8/1929-5/1936 | 82 | -4.6% | 44.7% | 5.6% | 5.5% | 0.6% | 24.9% | -3.3% |
| 2/1937-12/1942 | 71 | -4.0% | 27.0% | 3.7% | 4.8% | -0.4% | 16.2% | 3.1% |
| 5/1946-7/1949 | 39 | -1.1% | 15.2% | 1.7% | 2.6% | 0.0% | 9.4% | 8.2% |
| 7/1956-4/1958 | 22 | -0.4% | 12.5% | 2.2% | 6.8% | 1.0% | 7.4% | 3.4% |
| 11/1968-12/1970 | 26 | -1.8% | 16.8% | 0.0% | 12.1% | -1.0% | 12.7% | 5.7% |
| 11/1972-12/1975 | 38 | -2.7% | 19.7% | 3.8% | 8.5% | 0.7% | 13.2% | 9.0% |
| 11/1980-7/1982 | 21 | -4.5% | 14.0% | 11.7% | 11.8% | 2.2% | 11.4% | 8.4% |
| 8/1987-3/1989 | 20 | -1.1% | 22.8% | 7.4% | 5.8% | 1.7% | 15.0% | 4.4% |
| 8/2000-9/2004 | 50 | -4.3% | 16.3% | 7.9% | 4.4% | 1.1% | 9.2% | 2.3% |
| Bear Markets Average | 41 | -2.7% | 21.0% | 4.9% | 6.9% | 0.7% | 13.3% | 4.6% |
| Current: 10/2007-5/2008 | 8 | -7.0% | 9.4% | 4.3% | 2.6% | -2.7% | 5.1% | 3.8% |
| Historical: 1/1926-5/2008 | 989 | 10.3% | 21.4% | 5.2% | 5.9% | 8.7% | 12.8% | 3.1% |

**Performance displayed represents past performance, which is no guarantee of future results.** Please see the appendix for additional information and source data.

One of our goals is to create value for our clients by offering investment strategies that seek to enhance returns and mitigate risk. Our first product, The Arrow DWA Balanced Fund, tactically provides exposure to four market segments (US equities, international equities, fixed income and alternative assets).

Our tactical core products were designed to be responsive to changing market conditions but they are missing exposure to "absolute return" strategies. The Arrow Alternative Solutions Fund enables clients to blend our tactical core products with a Fund that uses alternative strategies. When combined, this gives our investors the opportunity to create their own endowment solution for their clients.

We know intermediaries are turning to tactical and alternative strategies to increase diversification, boost returns and help manage risk. We've got a generation of intermediaries out there who convinced themselves that if they are diversified and hold for the long term, they are home free. Look at endowments, however. Did they settle for a 3.4% return between January 2000 and May 2008 like the traditional portfolio of 60% equity and 40% bonds delivered? No. The returns at Harvard and Yale were far greater than 10% over the same period

Blending tactical funds with alternatives should give investors the chance to perform like the endowments — that is, to secure higher returns at a lower risk. We think one of the ways to extend the efficient frontier during a secular bear market is to blend the Arrow DWA Tactical Fund with the Arrow Alternative Solutions Fund. A mix of the two should create a portfolio that helps reduce portfolio volatility and improve the odds of preserving capital over the long term.

**TWST: Would you give us a profile of your typical investors in this Fund?**

**Mr. Barrato:** Our products were built as tools for the financial intermediary. A majority our investors are working with an intermediary. We have selling agreements with more than 200 of the top national, regional, independent broker/dealers and registered investment advisor platforms. We currently have more than 1,200 financial intermediaries using our products.

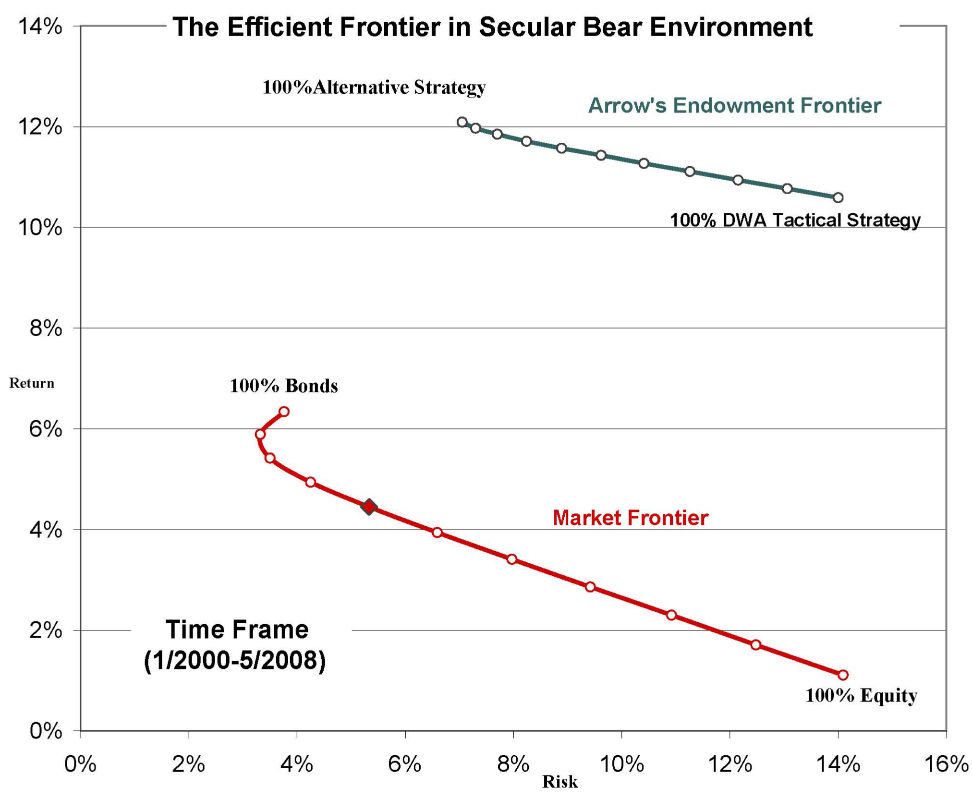
Some financial intermediaries are using the Funds for accounts that are not large enough to qualify for their own technically managed investment strategies. Others have used the Funds as a core holding to diversify their clients' portfolios and are adding value around it through technically based stock and ETF selections.

Many of the financial intermediaries have invested personal assets alongside their clients' investments. This is a common trait among financial intermediaries that believe in their own advice. The commonality across our customer base is that they believe in using technical analysis to manage client assets by taking a proactive approach to portfolio management and asset allocation.

The Arrow DWA Tactical Fund was designed for investors who have an investment time horizon of at least five years because the Fund has the flexibility to narrow its focus by investing among a wide range of asset classes, rotation strategies and ETFs. Investors should consider this Fund if they are looking for an actively managed alternative to strategic asset allocation funds, target maturity funds and life cycle funds that fall into the global asset allocation category.

The Arrow DWA Balanced Fund was designed for investors who have an investment time horizon of at least three to five years because the Fund offers broad diversification by investing in a wide range of asset classes, rotation strategies and ETFs. Investors should consider this Fund if they are looking for an actively managed alternative to strategic asset allocation funds, target maturity funds and life cycle funds that fall into the moderate allocation category.

The common traits among Arrow Funds managed by DWA are risk management through diversification among asset classes, tactical asset allocation and strict buy and sell disciplines exclusively based on technical analysis. Additionally, the Funds' exposure to alternative or specialty assets such as commodities and Treasury infla-

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tion-protected securities (TIPS) can potentially enable investors to be less reliant on fixed-income investments for reducing volatility and equities for increasing returns. Both funds are managed based on objective technical indicators and respond to inevitable changes in the market. And both are a way for those with smaller investment accounts to access DWA money management.

We focus on creating value for our shareholders by offering investment strategies that seek to enhance returns and mitigate risk. We believe asset management is in the midst of profound evolution. Forward-thinking advisors and savvy investors have learned that making the most of today's markets demands a rare combination of intelligence, instinct and innovation. Arrow Funds bring this combination to its distinctive portfolio of investment products.

**TWST: Thank you.**

*Note: Opinions and recommendations are as of 6/16/08.*

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*An investor should consider the Fund's investment objective, risks, charges, and expenses carefully before investing or sending money.* ***This and other information about Arrow Funds is contained in the fund's prospectus, which can be obtained by calling (877) 277-6933.*** *Please read the prospectus carefully before investing. The Arrow Funds are distributed by Northern Lights Distributors,LLC - member FINRA/SIPC.*

The Arrow DWA Balanced Fund and Arrow DWA Tactical Fund may invest in commodity-related securities which may be subject to greater volatility than investments in traditional securities. The Funds may invest in international and emerging market securities which may be subject to special to risks including fluctuations in currency, government regulation, differences in accounting standards and liquidity. The Fund may invest in small-cap securities which may have special risks associated including wider variations in earnings and business prospects than larger, more established companies. The Funds may invest in real estate-related securities which may be subject to mortgage-related risks and real estate market fluctuations. The Funds may invest in fixed-income securities which are subject to risks including interest rate, credit and inflation risk. The Funds are non-diversified as there are a limited number of underlying funds available and each holding has the potential for a greater impact on the Funds' returns. However, the underlying funds have access to a large number of different investments providing the additional diversification benefits discussed in the presentation. The maximum sales charge for Arrow's A-shares is 5.75%. A-share investors may be eligible for a reduction in sales charges. The Funds charges a fee of 1.00% on redemptions of shares held less than 30 days. The Arrow DWA Balanced Fund's annual operating expense is 2.01% (net operating expense of 1.6% plus acquired Fund fees of .41%). The Arrow DWA Tactical Fund's annual operating expense is 2.06% (net operating expense of 1.65% plus acquired fund Fees of .41%).

Appendix

The DWA Balanced Strategy and DWA Tactical Strategy reflect hypothetical or simulated performance figures and are not meant to represent actual performance results for the Arrow DWA Balanced Fund or Arrow DWA Tactical Fund. Past performance is not indicative of future results. Potential for profit is accompanied by possibility of loss. These figures reflect a simulated portfolio managed with the DWA Balanced and DWA Tactical Strategies using actual and hypothetical performance data for various Exchange Traded Funds (ETFs) based on DWA's analysis. The simulated model was constructed using their proprietary set of rules for the purchase and sale of ETFs for each underling strategy as outlined in the Fund's prospectus. There can be no assurance that actual transactions would have given the same results, although the manager believes results of actual trades would have been very similar. Performance results reflect the re-investment of dividends and other earnings. The performance results are net transaction costs and operating expenses associated with the management of the strategies. The performance of the Hypothetical DWA Balanced and DWA Tactical Strategy was reduced by 200 basis points annually to account for fees.

Equity returns were derived from the unmanaged Standard & Poor's Composite Index of 500 stocks, which includes the reinvestment of dividends. Bond returns were derived from the Lehman Brothers Aggregate Bond Index, (October 1973 - May 2008) and Ibbotson's Long-Term Government Bonds portfolio, which has a maturity near 20 years (January 1960 –September 1973). The inflation numbers were derived from the unmanaged Consumer Price Index (CPI). The rate of change in inflation was based on the CPI for all Urban Consumers Items, not seasonally adjusted. The CPI data was provided by The U.S. Department of Labor: Bureau of Labor Statistics. It is not possible to invest in indexes which are unmanaged and do not incur fees and charges. The information provided here is intended to be general in nature and should not be construed as investment advice. This information is subject to change at anytime, based on market and other conditions and should not be construed as a recommendation of any specific security. Equity and Bond numbers were calculated by Arrow Funds using Ibbotson & Morningstar data. Risk is the standard deviation, a statistical measurement of dispersion, which is used to measure the volatility of returns for an instrument or portfolio.

For more complete information regarding Arrow Funds visit www.arrowfunds.com or call 1-877-ARROW FD (877-277-6933).

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