

# ARROW ALTERNATIVE SOLUTIONS FUND

SEEKS ABSOLUTE RETURNS WITH TARGETED RISK

## Highlights

- Exposure to three alternative strategies
- Seeks absolute returns with a targeted risk objective
- Low correlation to traditional investments
- Quantitative buy & sell discipline
- Core holding for alternative investment allocations

## Objective

The fund seeks capital appreciation with an emphasis on absolute returns, low volatility, and low correlation to the equity markets.

## Fund Type

Long/Short Allocation

## Portfolio Manager

Arrow Investment Advisors  
Team Managed

## Minimum Investment

- \$5,000 non-qualified account
- \$2,000 retirement account
- \$250 subsequent investments

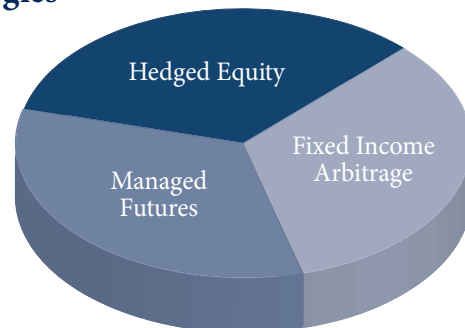
| CLASS    | SYMBOL | CUSIP     |
|----------|--------|-----------|
| A-Shares | ASFFX  | 66537T679 |
| C-Shares | ASFTX  | 66537T661 |



## Diversification Across Alternative Strategies

Arrow Alternative Solutions Fund is a mutual fund that delivers unique risk and return characteristics. Alternative strategies have historically exhibited relatively low correlation to traditional investments such as equities & bonds. The fund uses a systematic quantitative methodology for allocation across three alternative strategies: hedged equities, fixed income arbitrage and managed futures.

Within the framework of modern portfolio theory, the fund optimizes the exposure to the underlying long/short strategies to diversify the portfolio. In portfolio optimization, the fund seeks to provide an optimal balance between managing risk and achieving returns. Below is a description of each long/short asset class category including target allocation ranges. Keep in mind, actual portfolio exposures may vary as market values change.



| Strategy               | Goal   | Min | Max |
|------------------------|--|-----|-----|
| Hedged Equity          | Seeks to provide exposure to long and short equity positions.                          | 40% | 60% |
| Fixed Income Arbitrage | Seeks to provide exposure to price anomalies between related fixed income instruments. | 20% | 40% |
| Managed Futures        | Seeks to provide exposure to long and short financial futures and commodity futures.   | 20% | 30% |

**Risk Management Targets:** Over a rolling 3 to 5 year time horizon, the fund targets a 7% risk level (as measured by standard deviation), a beta and correlation to the S&P 500 of less than 0.5 and a Sharpe Ratio greater than 0.25. *The advisor does not represent or guarantee that the fund will meet these goals.*

## Exposure to Long/Short Absolute Return Factors™

Like a hedge fund, the fund seeks to deliver absolute returns—that is, generally positive returns in any market environment. As a result, the fund offers the potential for increased diversification, enhanced risk-adjusted returns and protection against volatility. We believe the lower volatility allows portfolio assets to grow steadily, possibly compounding positive returns year after year.

The fund uses quantitative methodologies of traditional return factors (e.g., value, size, etc.) as a foundation for creating *Absolute Return Factors*. These factors are typically incorporated in the type of investment strategies widely employed by hedge funds and are the basis of hedge fund replication. Portfolio management using Absolute Return Factors attempts to protect the portfolio in environments where investments traditionally decrease in value and helps to lower the volatility that arises from market risks. The fund's three long/short investment strategies may include, but are not limited to, the Absolute Return Factors shown in the table below.

| Portfolio Allocation of Absolute Return Factors (as of 12/31/2009) |                                  |                                      |
|--|----------------------------------|--------------------------------------|
| Hedged Equity  | Fixed Income Arbitrage           | Managed Futures                      |
| 11.0% Volatility Arbitrage   | 11.0% TIPS                       | 10.0% L/S Currency Absolute Strength |
| 7.5% Merger Arbitrage  | 4.5% Agency Credit Spread        | 7.0% L/S Commodity Absolute Strength |
| 7.0% L/S Value   | 2.5% HY/Emerg Mkt Credit Spread  | 7.0% Commodity Carry                 |
| 7.0% L/S Sector Relative Strength                                  | 2.0% Corporate Credit Spreads    | 3.0% L/S Commodity Relative Strength |
| 6.0% L/S Equity Absolute Strength                                  | 2.0% Asset Backed Credit Spreads | 2.0% Currency Yield Arbitrage        |
| 4.0% L/S Emerging Markets  |                                  |                                      |
| 2.5% Risk Mgmt/Hedge   |                                  |                                      |
| 2.0% L/S Relative Strength   |                                  |                                      |
| 2.0% L/S Mean Reversion  |                                  |                                      |

**Standard deviation** is a statistical measurement of volatility based on historical returns. **Correlation** measures how closely two securities' movements are associated, ranging from 1.0 (highly correlated) to -1.0 (inversely correlated). **Sharpe Ratio** is a measure of risk adjusted returns and is the return less the risk-free rate divided by the standard deviation. **Absolute Returns** are generally positive returns in any market environment.

**This fund may not be suitable for all investors.** The fund's use of derivatives such as futures, options and swap agreements may expose the fund to additional risks that it would not be subject to if it invested directly in the securities underlying those derivatives. Investing in leveraged instruments will magnify any gains or losses on those instruments. Investing in commodity and currency related securities may be subject to greater volatility than investments in traditional securities. The fund's use of short selling involves increased risks and additional costs. Investing in small-cap securities, may have special risks associated including wider variations in earnings and business prospects than larger, more established companies. The fund may invest in fixed income securities, which are subject to risks including interest rate, credit and inflation.

*Before investing, please read the fund's prospectus and shareholder reports to learn about its investment strategy and potential risks. Mutual fund investing involves risk including loss of principal. An investor should also consider the fund's investment objective, charges, expenses, and risk carefully before investing. This and other information about the fund is contained in the prospectus, which can be obtained by calling 1-877-277-6933. Please read the prospectus carefully before investing. Distributed by Northern Lights Distributors, LLC, member FINRA/SIPC.*

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TARGETING PORTFOLIO SOLUTIONS

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PORTFOLIO STATISTICS AS OF 12/31/2009

## Fund Performance

| Class    | YTD    | Three Month | Annualized |            |                    | Since Inception    |                          |
|----------|--------|-------------|------------|------------|--------------------|--------------------|--------------------------|
|          |        |             | One Year   | Three Year | Inception 10/31/07 | Standard Deviation | Correlation (vs S&P 500) |
| A-Shares | 1.51%  | -0.68%      | 1.51%      | N/A        | -4.12%             | 7.71%              | 0.36                     |
| C-Shares | 0.84%  | -0.80%      | 0.84%      | N/A        | -4.73%             | 7.73%              | 0.36                     |
| HFRI FoF | 9.02%  | 2.49%       | 9.02%      | --         | -5.37%             | 8.48%              | 0.35                     |
| S&P 500  | 26.46% | 6.04%       | 26.46%     | --         | -12.00%            | 22.67%             | 1.00                     |

**Past performance does not guarantee future results.** For periods less than one year, performance is not annualized. The performance data quoted represents past performance at net asset value and current returns may be lower or higher. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. To obtain performance information current to the most recent month end, please call 1-877-277-6933. The maximum sales charge for A-Shares is 5.75% and may be eligible for a reduction in sales charges. The fund charges a fee of 1.00% on redemptions of shares held less than 30 days. The total fund expenses are 1.72% for A-Shares and 2.47% for C-Shares. The net annual operating expense is 1.52% for A-Shares and 2.27% for C-Shares, plus acquired fund fees and short interest of 0.20%.

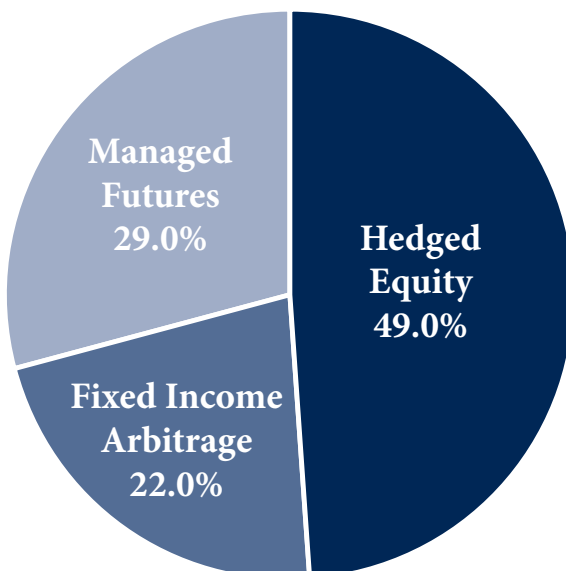
HFRI Fund of Funds Composite Index (HFRI FoF): An equal-weighted index comprised of over 800 domestic and offshore multi-strategy and/or "fund of fund" hedge funds with at least \$50 million in assets under management and a trading history of 12 months or more. The reported returns are net of expenses at the fund level, but the index itself does not assess a fee. It is not possible to invest in an index which is unmanaged and does not incur fees and expenses.

## Strategy Performance Analysis

| Strategy               | Three Month | One Year | Inception 10/31/07 |
|------------------------|-------------|----------|--------------------|
| Hedged Equity          | -0.51%      | -1.28%   | -6.35%             |
| Fixed Income Arbitrage | 1.51%       | 10.46%   | 2.57%              |
| Managed Futures        | -1.60%      | -0.77%   | -3.80%             |

\*Periods of one year or more are annualized.

## Portfolio Allocation



## Top Holdings

| Hedged Equity |                               |
|---------------|-------------------------------|
| Long          | KOSPI 200 VAR Dec 10          |
|               | CBOE VIX FUTURE Jan10         |
|               | S&P500 EMINI OPTN Mar10C 1210 |
| Short         | NDX VAR 12172010              |
|               | S&P500 EMINI OPTN Mar10C 1100 |
|               | S&P500 EMINI OPTN Jan10C 1125 |

| Fixed Income Arbitrage |                         |
|------------------------|-------------------------|
| Long                   | TSY INFL IX N/B         |
|                        | TII 1.625 01/15/18 Govt |
|                        | FHLB 3.375% 2/27/13     |
| Short                  | US 5YR NOTE (CBT) Mar10 |
|                        | US 10YR NOTE FUT Mar10  |
|                        | N/A                     |

| Managed Futures |                            |
|-----------------|----------------------------|
| Long            | PWRSHARES DB G10 CURR HARV |
|                 | CNY NDF 1 MO               |
|                 | LME ZINC FORWARD (\$)      |
| Short           | LIVE CATTLE FUTR Feb10     |
|                 | NATURAL GAS FUTR Feb10     |
|                 | JPN YEN CURR FUT Mar10     |

For additional information, visit our web site at [www.arrowfunds.com](http://www.arrowfunds.com)