

**A
Commonsense
Approach
to
Allocating
Alternatives**

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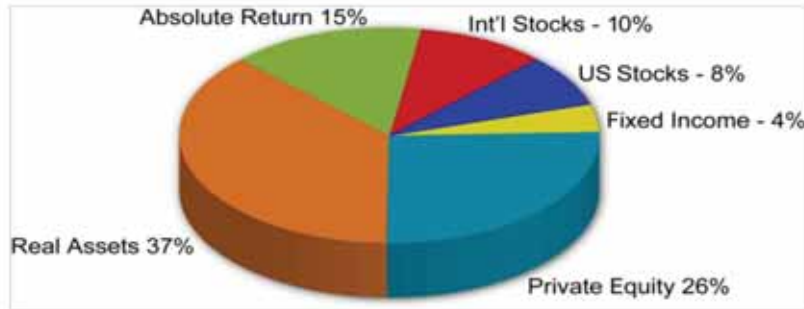
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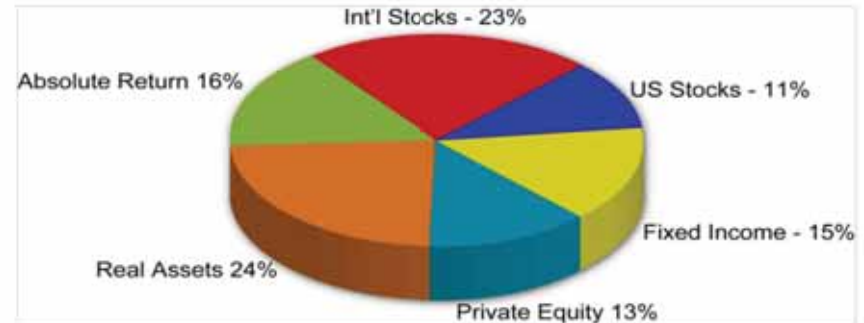
Why do so many large, successful institutions utilize alternative investments and most investors don't?

Yale University Endowment



78% Alternatives

Harvard University Endowment



52% Alternatives

According to the December 2010 report of the National Association of College and University Business Officers (NACUBO) and Commonfund Institute:

	U.S. Stocks	Int'l. Stocks	Fixed Income	Alternatives	Cash Equiv.
Over \$1 Billion	11%	15%	10%	60%	4%
\$100 Million to \$500 Million	25%	17%	17%	35%	6%
Under \$25 Million	40%	13%	27%	12%	8%

Source: 2009 Yale Endowment Annual Report, September 2009 Harvard Management Company Endowment Report. Some of the asset classes listed above may involve higher risk and liquidity constraints. Real Assets may involve various commodities and real estate. Private Equity may involve venture capital and angel investing and may not be liquid. Absolute Return strategies aim to produce positive returns regardless of the conditions of the financial markets. The asset allocation listed above may involve high initial investment dollars.



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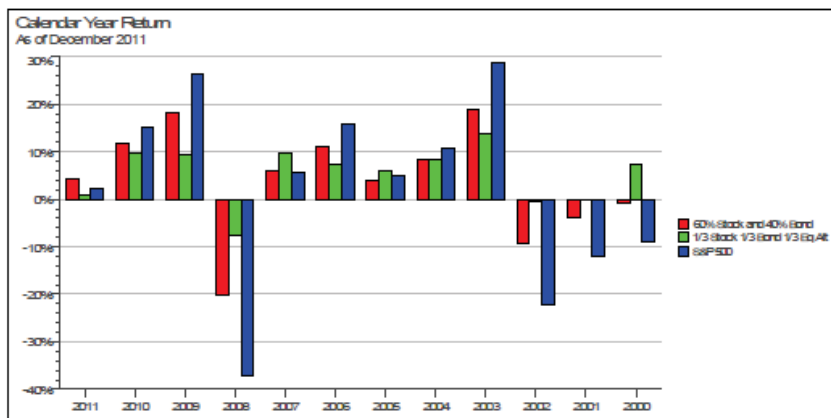
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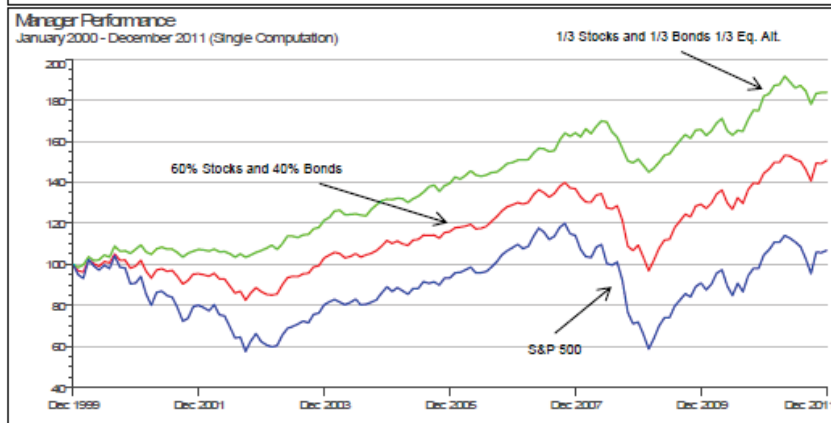
HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION AND ALPHA

Typical – Moderate Risk and Return – Asset Allocation

Alternative investments can help you reduce portfolio volatility



Alternative investments can help you win by not losing.



"Stock" represents the S&P 500. "Bond" represents the Barclays Aggregate Bond Index. 33.3% of "Equal 4 Alternatives" represents a hypothetical equal weighting of 25% of each of the following indices: Morningstar Commodity L/S Index, Barclay Currency Traders Index, Barclay Equity Long/Short Index and HFN CTA/Managed Futures Index.

Source: Zephyr and Associates. Past performance does not guarantee future results. See disclaimer of potential risks on the last page this presentation.



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HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION AND ALPHA

Volatility and the Lost Decade



Source: Zephyr StyleADVISOR. The S&P 500 is a market-capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Calculations are based on historical index performance and are shown for illustration purposes only. Past performance does not guarantee future results.

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Alternative Strategies Have Performed Well in Both Up and Down Markets



Source Zephyr StyleADVISOR (January 1, 1993 – March 31, 2012). Alternative Strategies are represented by the Hedge Fund Research, Inc. (HFRI) Fund-of-Funds Composite, an equal-weighted index consisting of over 800 consultant hedge funds, including both domestic and offshore funds; U.S. Stocks are represented by the S&P 500, a market capitalization-weighted index of 500 widely held stocks often listed as proxy for the stock market. **Past performance does not guarantee future results. Illustration does not reflect performance of Principal Fund and does not take into account cost associated with investment. The Principal Global Multi-Strategy Fund is new and therefore does not have investment performance. Index performance information reflects no deduction for fees, expensed, or taxes. Indices are managed and individuals cannot invest directly in an Index. Asset allocation/diversification does not guarantee a profit or protect against a loss.**

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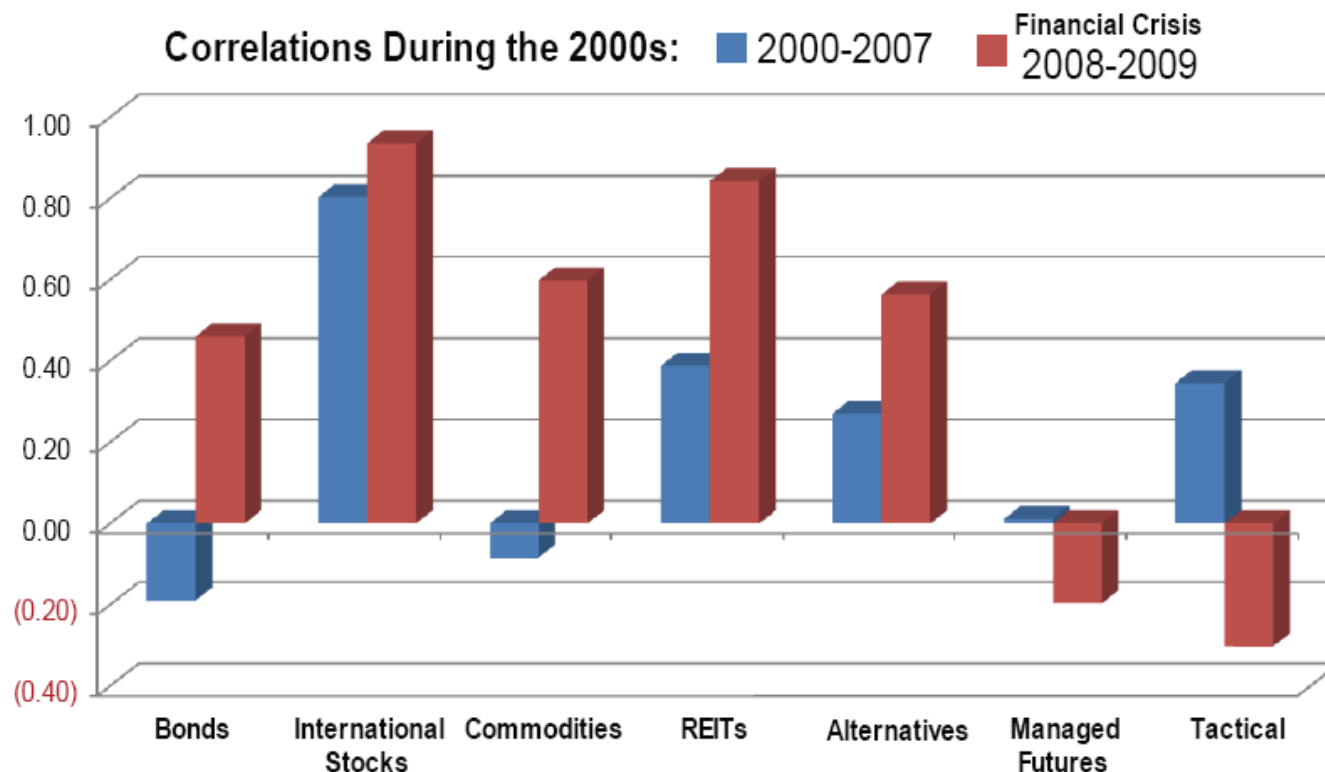


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Market Correlations



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Past performance is not indicative of future returns. Asset proxies: U.S. Stocks (S&P 500 Index); International Stocks (MSCI EAFE); Bonds (Barclays Aggregate Bond Index); Commodities (S&P GSCI); REITs (Wilshire REIT Index); Alternatives (Equal-weighted blend of C/S Tremont Hedged Equity, Fixed Income Arbitrage, and Managed Futures Indexes); Managed Futures (Trader Vic Index); Tactical (DWA Global Macro). Index returns assume reinvestment of all dividends and do not reflect any management fees, transaction costs or expenses. The indexes are unmanaged and are not available for direct investment. Data Sources: Morningstar/Bloomberg, calculated by Arrow Investment Advisors.

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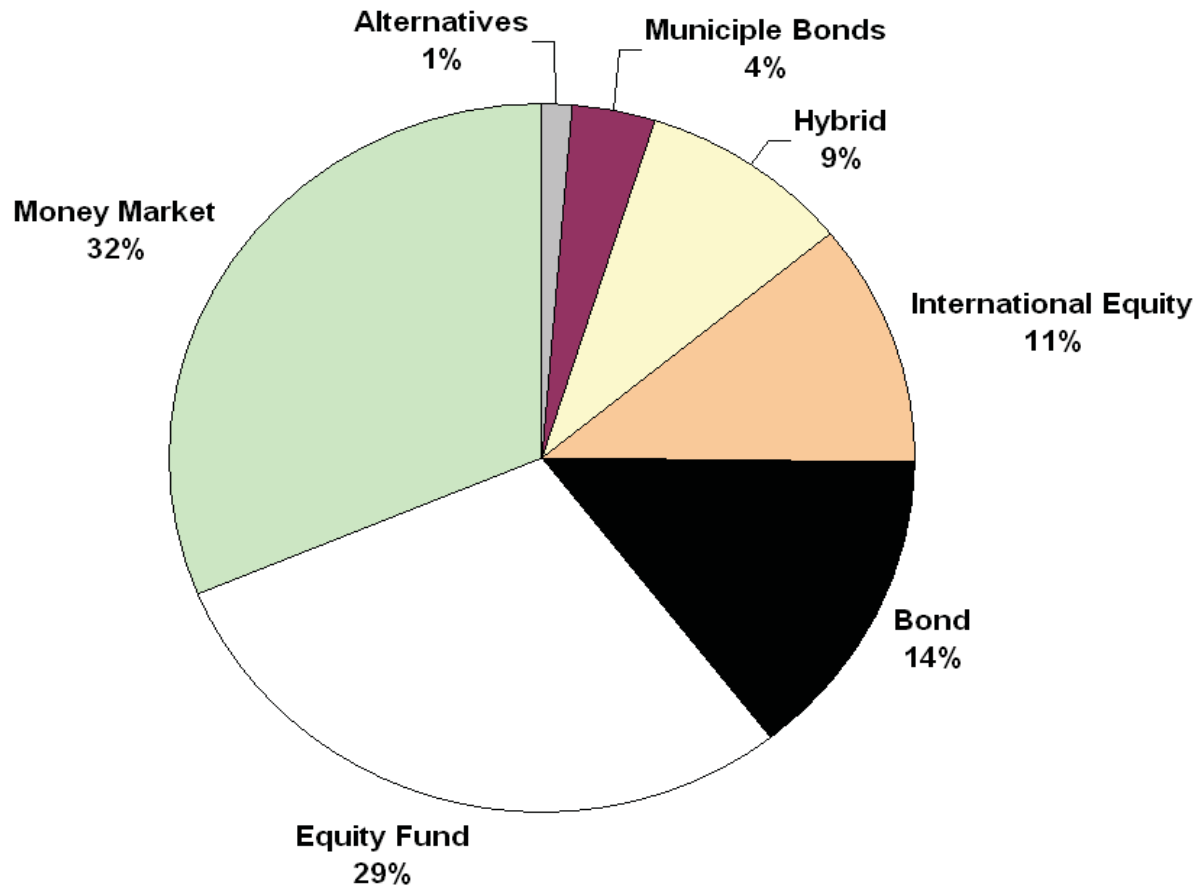


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HOW ADVISORS CAN ACHIEVE PORTFOLIO DIVERSIFICATION AND ALPHA

Industry Breakout: Funds & ETFs



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Source: Morningstar

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