



# The Arbitrage Fund

## First Quarter Update as of March 31, 2003

A unique hedge-fund, market-neutral strategy with the daily pricing and liquidity of a mutual fund that is designed to minimize market exposure and volatility and play a significant role in portfolio diversification.

### Investment Objective

The Arbitrage Fund seeks to achieve capital growth by engaging in merger arbitrage.

### Investment Strategy

The Arbitrage Fund utilizes a conservative preservation-of-capital approach with stringent risk management and seeks to generate consistent, positive returns in a non-correlated manner to the general equity and bond markets.

### Investment Guidelines

- The Arbitrage Fund primarily purchases shares of announced acquisition target companies at discounts to their expected value upon completion of an acquisition.
- The Fund may also invest in corporate reorganizations involving publicly announced tender offers, leveraged buyouts, spin-offs, and liquidations.
- The Arbitrage Fund employs minimal leverage designed to minimize market exposure and volatility. These strategies include short selling, as well as the purchase and sale of options.

### Portfolio Characteristics

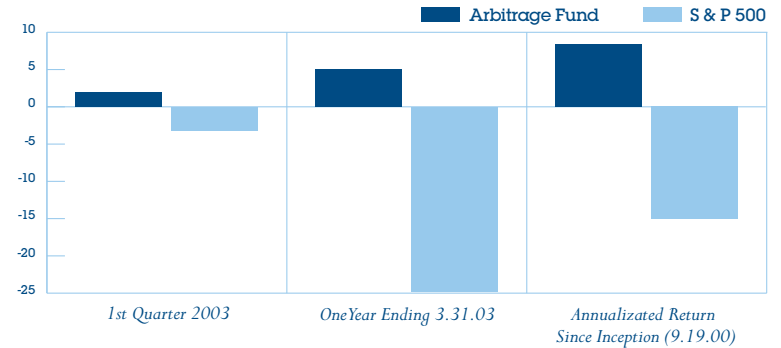
Std. Dev.	4.8%
Sharpe Ratio	0.81
Weight Average Market Cap	\$498.36 million (as of 12.31.02)
TICKER	ARBFX
Fees and Expenses	1.94
Turnover	980%
Total Assets	\$85.2 Million

### Composition

Stocks	84%
Cash	16%

### Performance Comparison

Total Returns for the period ending 3.31.03



Total Returns for the period ending 3.31.03	1st Quarter 2003	One year Ending 3.31.03	Annualized Return Since Inception (Sept. 19, 2000)
Arbitrage Fund	2.01	5.04	8.38
S & P 500	-3.15	-24.76	-15.04

Past performance does not guarantee future results. 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. Returns shown above include the reinvestment of all dividends and capital gains. Contractual fee waivers are currently in effect; without such fee waivers, performance would be less than shown above.

### The Arbitrage Corner

Merger Arbitrage involves underwriting deal risk and the key to our profitability is a strict underwriting discipline. While assessing the probability and the magnitude of potential loss weighed against potential profit, we commit capital only to those situations where the risk-adjusted rate of return is favorable. John Orrico, *Portfolio Manager*

### About the Portfolio Manager

#### John Orrico, CFA

- Twenty-one years of securities industry experience including positions in corporate finance, institutional equity trading, and as a research analyst and portfolio manager.
- Formed Water Island Capital, the Advisor to the Arbitrage Fund, in 2000.
- Prior nine years as arbitrage analyst and arbitrage portfolio director for private accounts at Gruss & Co., and Lindemann Capital Partners LLC.
- Achieved the CFA designation in 1988.
- Received a Bachelor Degree from Georgetown University in Finance and International Management, 1982.

### About the Advisor

Water Island Capital	Phone: 800 295-4485
650 Fifth Ave, 6th Fl.	Fax: 212-259-2698
New York, New York 10019	information@thearbfund.com

**For Additional Information** For more complete information about the Fund, including charges and expenses, call 800 295-4485 or go to [www.thearbfund.com](http://www.thearbfund.com) and download a prospectus.



# The Arbitrage Fund

## Top 10 Holdings *as of 3.31.03*

Expedia/USA Interactive	4.90%
HSBC/Household Int'l.	4.60%
First Virginia Bank/BB&T Corp	4.10%
Pharmacia/Pfizer	3.90%
Scios/Johnson & Johnson	3.90%
F&M Bancorp/Mercantile Bank	3.50%
Canadian Life/Great West Lifecorp	3.40%
Wallace Computer Svcs/Moore Corp	3.30%
Precise Software/Veritas Software	3.10%
Whitman Education /Career Education Corp	3.10%

## Historical Performance

Date	Dividend Amount	NAV	Calendar YTD Return	3 - Month Return	6 - Month Return	9- Month Return	12- Month Return	Cumulative Return since Inception
Dec. 31, 2000	\$0.00000	\$10.07	2.84%	0.88%				0.98%
March 31, 2001	\$0.00000	\$10.54	4.67%	4.67%	5.59%			5.70%
June 30, 2001	\$0.00000	\$10.80	7.25%	2.47%	7.25%	8.20%		8.31%
Sept. 30, 2001	\$0.00000	\$10.47	4.89%	-3.06%	-0.66%	3.97%	4.89%	5.00%
Dec. 31, 2001	\$0.35181	\$10.62	8.95%	4.78%	1.58%	4.09%	8.95%	10.02%
March 31, 2002	\$0.00000	\$11.27	6.12%	6.12%	11.20%	7.80%	10.46%	16.75%
June 30, 2002	\$0.00000	\$11.16	5.27%	-0.80%	5.27%	10.31%	6.94%	15.82%
Sept. 30, 2002	\$0.00000	\$11.17	5.18%	-0.09%	-0.89%	5.18%	10.21%	15.72%
Dec. 31, 2002	\$0.14500	\$11.46	9.27%	3.89%	3.80%	2.97%	9.27%	20.22%
March 31, 2003	\$0.00000	\$11.69	2.01%	2.01%	5.98%	5.88%	5.04%	22.64%

Any security listed should not be regarded as a recommendation. References to securities are only as of March 31, 2003. For more complete information about the Arbitrage Fund, including charges and expenses, obtain a prospectus from the Fund by calling 800 295-4485. Read it carefully before investing or sending money. The Fund uses investment techniques that are different from the risks ordinarily associated with equity investments. Such techniques and strategies include merger arbitrage risks, non-diversification risks, high portfolio turnover risks, options risks and borrowing risks. The Fund's average annual total returns for the periods ending March 31, 2003 were: 1 year 5.04; Since Inception (September 19, 2000) 8.38%. The performance data quoted represents past performance and is not predictive of future results. The return and principal of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Contractual fee waivers are currently in effect; without such fee waivers, performance would be less than that shown above.

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