The Arbitrage Fund

First Quarter Update as of March 31, 2007

Portfolio Characteristics

Beta	0.47
Standard Deviation	4.95%
Correlation to S&P 500	0.67
Correlation to Lehman U.S. Aggregate Bond Index	0.13
Weighted Average Market Cap	$2.7 B

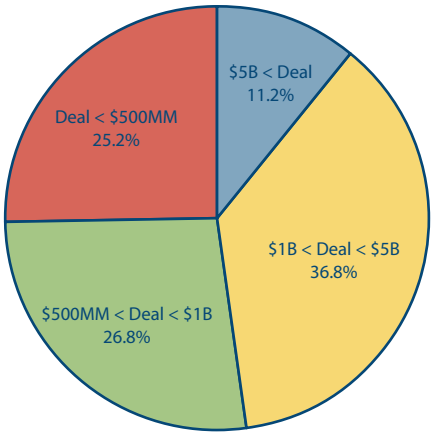
Standard Deviation measures the degree of variation of returns around the average return. Beta measures the overall risk of a financial security relative to the broader market. Risk measurements are trailing 3-year through quarter-end.

Portfolio Composition

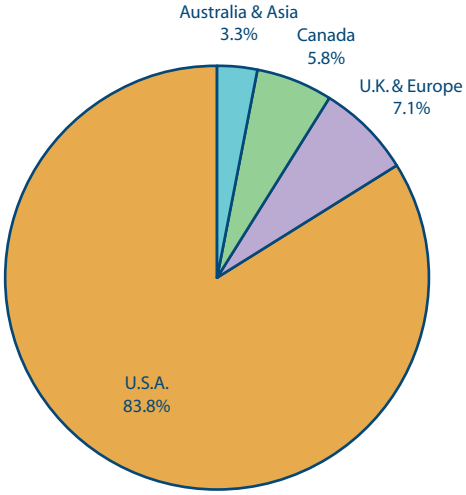
Assets Under Management	$164.9 MM
Long Exposure	98.5%
Short Exposure	19.8%
Cash	1.5%

Portfolio Diversication

Deal Market Cap Breakdown



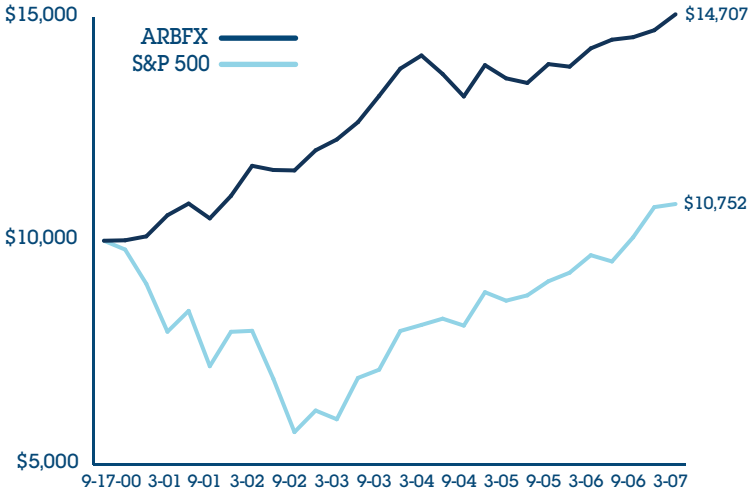
Deal Geography Breakdown



The pie charts above show a breakdown of the geographies and market capitalizations of the deals in which we are invested. Investing across the market cap spectrum and across borders aids in the diversification of the portfolio.

Performance Comparison (ARBFX)

Change in value of a $10,000 investment in The Arbitrage Fund versus the S&P 500.



Total returns for the period ending 3.31.07	3-Month	12-Month	5-Year Annualized	Annualized Since Inception (9/17/00)
The Arbitrage Fund	2.42%	5.32%	5.23%	6.47%
S&P 500	0.64%	11.82%	6.26%	1.21%

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling (800) 295-4485 or visiting our website at http://www.thearbfund.com/. Returns do not reflect a 2% redemption fee for shares that are redeemed from the fund within 90 days of purchase, which, if reflected, would reduce the performance quoted. Returns shown above include the reinvestment of all dividends and capital gains. Contractual fee waivers are currently in effect. Without such fee waivers, performance numbers would be reduced. The Total Annual Fund Operating Expenses for ARBFX and ARBNX are 2.41% and 2.16%, respectively. The Advisor has agreed to waive fees in excess of 1.95% and 1.70% for ARBFX and ARBNX, respectively, until at least August 31, 2012.

First Quarter Review

The Arbitrage Fund returned 2.42% for the first quarter of 2007. Takeover activity remained robust, with first quarter transactions totaling $1.07 trillion according to Bloomberg. This 10% jump over Q1 2006 positions 2007 on track for another record year for both US and global M&A activity.

Most importantly, the Arbitrage Fund achieved its primary goals; avoiding the volatility associated with global equity markets and posting positive non-correlated returns. We see this buffer effect as one of the great values The Arbitrage Fund delivers, serving as a financial umbrella during bad market weather.

Advisor

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For Additional Information:

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing. The Fund's prospectus contains this and other important information. You may obtain a copy of the Fund's prospectus at thearbfund.com or by calling (800) 295-4485. Please read the prospectus carefully before you invest or send money.

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The Arbitrage Corner: Arbitrage Investing vs. Speculating on Takeovers ... Buyer Beware!

In previous Arb Corners, we have defined arbitrage (merger arb or any other type of arbitrage) as the simultaneous purchase and sale of related securities designed to capture a price difference or spread between those securities. In the world of M&A investors, there are those who arbitrage mergers and there are many others who simply speculate on takeovers or potential takeovers.

What's the difference? The difference is that arbitrageurs invest in announced deals and go long the target *and* simultaneously short the acquirer in order to lock in the spread that exists between target and acquirer shares. This is arbitrage. Investing in companies that might become takeover targets is an entirely different investment strategy. Although speculating on potential deals is a legitimate strategy for an equity fund, the risk profile associated with this "deep value" style of investing is far different from arbitrage.

Why does it matter? It matters for one major reason: The purpose of arbitrage is to be market neutral, to zig when the market zags, to act as a bond substitute churning out returns that are a multiple of short term interest rates. Merger arbitrage funds accomplish this by investing in stocks that are already parties to mergers and therefore no longer trade with the market or on fundamentals, but rather on the merger story and timeline. Arbitrage is market neutral because it invests long and short to capture mathematically defined spreads or price differences which track short term rates. These differences or spreads are between what the takeover target trades at today versus what the holder will receive when the deal closes. As Popeye's sidekick Wimpy says, "I will gladly pay you Tuesday for a hamburger today."

Deep value funds that hope for their portfolio companies to be taken over may earn substantial gains if their wishes come true (and losses if they don't), but these long only funds do not earn mathematically defined returns based on spreads closing and deals rolling off like maturing bonds in a well laddered fixed income portfolio. Such "merger linked" funds are subject to all the ups and downs of any equity fund, and perhaps more so, given the narrow and high stakes niche in which they play.

So, if it is Alpha and not Beta you truly seek (low correlation and low volatility as well), seek out arbitrage funds, not their more daring look-alikes, the "merger related" funds.

Historical Performance

Date	NAV	Calendar YTD Return	3-Month Return	6-Month Return	9-Month Return	12-Month Return	5-Year Annualized Return	Cumulative Return Since Inception
March 31, 2007	$12.72	2.42%	2.42%	3.51%	3.92%	5.32%	5.23%	50.62%
December 31, 2006	$12.42	5.87%	1.07%	1.47%	2.84%	5.87%	5.98%	47.07%
September 30, 2006	$12.80	4.75%	0.39%	1.75%	4.75%	4.32%	6.74%	45.51%
June 30, 2006	$12.75	4.34%	1.35%	4.34%	3.91%	7.14%	6.00%	44.95%
March 31, 2006	$12.58	2.95%	2.95%	2.53%	5.71%	4.92%	6.23%	43.01%
December 31, 2005	$12.22	-0.24%	-0.41%	2.69%	1.92%	-0.24%	6.59%	38.92%
September 30, 2005	$12.27	0.16%	3.11%	2.34%	0.16%	5.46%	6.86%	39.49%
June 30, 2005	$11.90	-2.86%	-0.75%	-2.86%	2.28%	-1.45%		35.28%
March 31, 2005	$11.99	-2.12%	-2.12%	3.06%	-0.71%	-3.62%		36.31%
December 31, 2004	$12.25	0.57%	5.29%	1.45%	-1.53%	0.57%		39.26%
September 30, 2004	$12.13	-4.49%	-3.65%	-6.48%	-4.49%	-0.10%		32.26%
June 30, 2004	$12.59	-0.87%	-2.93%	-0.87%	3.69%	8.50%		37.28%
March 31, 2004	$12.97	2.13%	2.13%	6.82%	11.78%	15.32%		41.42%
December 31, 2003	$12.70	15.18%	4.60%	9.45%	12.92%	15.18%		38.48%
September 30, 2003	$12.62	10.12%	4.64%	7.96%	10.12%	14.41%		32.39%
June 30, 2003	$12.06	5.24%	3.17%	5.24%	9.33%	9.24%		26.52%
March 31, 2003	$11.69	2.01%	2.01%	5.98%	5.88%	5.04%		22.64%
December 31, 2002	$11.46	9.27%	3.89%	3.80%	2.97%	9.27%		20.22%
September 30, 2002	$11.17	5.18%	-0.09%	-0.89%	5.18%	10.21%		15.72%
June 30, 2002	$11.18	5.27%	-0.80%	5.27%	10.31%	6.94%		15.82%
March 31, 2002	$11.27	6.12%	6.12%	11.20%	7.80%	10.46%		16.75%
December 31, 2001	$10.62	8.95%	4.78%	1.58%	4.09%	8.95%		10.02%
September 30, 2001	$10.47	3.97%	-3.06%	-0.66%	3.97%	4.89%		5.00%
June 30, 2001	$10.80	7.25%	2.47%	7.25%	8.20%			8.31%
March 31, 2001	$10.54	4.67%	4.67%	5.59%				5.70%
December 31, 2000	$10.07	2.84%	0.88%					0.98%

Risks and Disclosure

The Fund uses investment techniques that are different from the risks ordinarily associated with equity investments. Such techniques and strategies include merger arbitrage risks, high portfolio turnover risks, options risks, borrowing risks, short sale risks, and foreign investment risks, which may increase volatility and may increase costs and lower performance. Past performance is not a guarantee of future results. Fee waivers and reimbursement of fund expenses by the Advisor, which capped the Fund's expense ratio at 1.95%, positively impacted the Fund's total return.

Material represents the manager's opinion and should not be regarded as investment advice or a recommendation of any security or strategy. Contractual fee waivers which expire in 2012 are currently in effect; without such fee waivers, performance would be less than that shown above. The Arbitrage Fund is distributed by SEI Investments Distribution Co.

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