The Arbitrage Fund

First Quarter Update as of March 31, 2008

Portfolio Characteristics

Beta	0.16
Standard Deviation	3.03%
Correlation to S&P 500	0.49
Correlation to Lehman U.S. Aggregate Bond Index	-0.14
Weighted Average Market Cap	$5.1 B

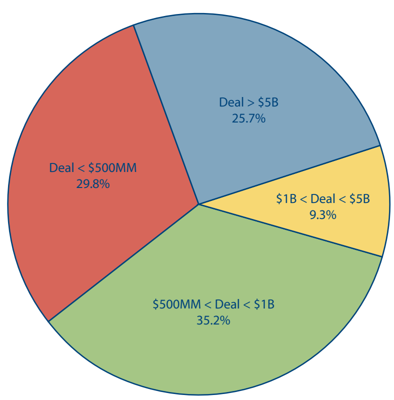
Standard Deviation measures the degree of variation of returns around the average return. Beta measures the overall risk of a financial security relative to the broader market. Risk measurements are trailing 3-year through quarter-end.

Portfolio Composition

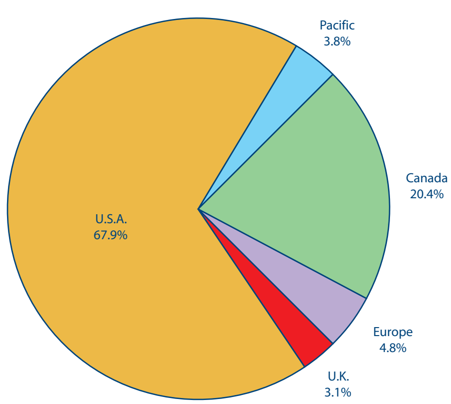
Total Fund Assets Under Management	$178.6 MM
ARBFX (Retail Class) AUM	$98.1 MM
ARBNX (Institutional Class) AUM	$80.6 MM
Long Exposure	97.5%
Short Exposure	9.6%
Cash	2.5%

Portfolio Diversication

Deal Market Cap Breakdown



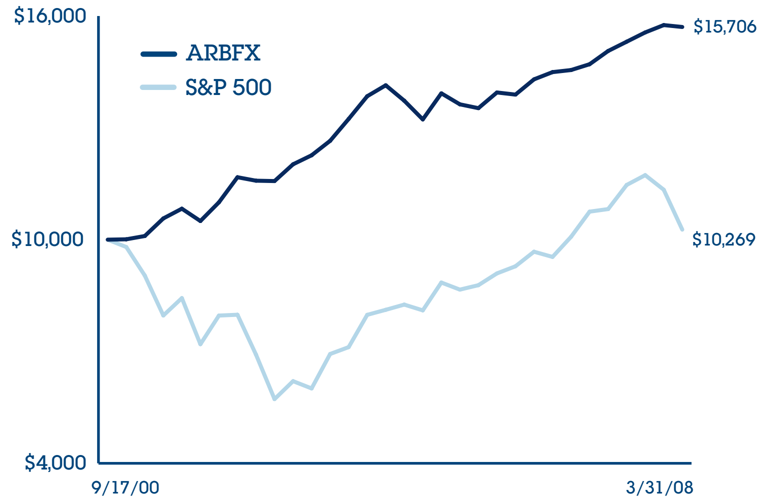
Deal Geography Breakdown



The pie charts above show a breakdown of the regions and market capitalizations of the deals in which we are invested as a percentage of portfolio assets. 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, since inception (9/17/00).



Total returns for the period ending 3/31/08	3-Month	12-Month	5-Year Annualized	Annualized Since Inception
The Arbitrage Fund (ARBFX)	-0.32%	4.27%	5.07%	6.17%*
The Arbitrage Fund (ARBNX)	-0.32%	4.55%	--	3.72%**
S&P 500	-9.44%	-5.08%	11.31%	0.35%*, 7.52%**

* since 9/17/00, ** since 10/17/03

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 2.14% and 1.89%, respectively. The Advisor has agreed to waive fees in excess of 1.88% and 1.63% for ARBFX and ARBNX, respectively, until at least August 31, 2012.

Top Ten Deals (48.14% of portfolio as of 3/31/08)

Target	*Acquirer*
ASE Test Limited	Advanced Semiconductor Engineering Inc
BCE Inc	Multiple Acquirers
BEA Systems Inc	Oracle Corp
Bronco Drilling Co Inc	Allis-Chalmers Energy Inc
CHC Helicopter Corp	First Reserve Corp
Huntsman Corp	Apollo Management LP
Puget Energy Inc	Multiple Acquirers
Trane Inc	Ingersoll-Rand Co Ltd
UAP Holding Corp	Agrium Inc
Waste Industries USA Inc	American Disposal Services

Advisor

Water Island Capital, LLC
41 Madison Ave, Suite 2802
New York, NY 10010
Phone: (800) 295-4485

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.

The Arbitrage Fund

First Quarter Update as of March 31, 2008

First Quarter Review

Healthy Deal Flow

Strong global deal flow between strategic operators during the first quarter of 2008 led to one of the busiest quarters on record for the Fund. During the first 90 days of 2008 the Fund invested in 52 new transactions, ranging from the tiny $66 million purchase of software application developer Manatron Inc by Thoma Cressey Bravo, to the $40 billion+ hostile bid for Yahoo tabled by Microsoft (still pending). Strategic deals were at the forefront of activity, as they have been since last summer, when the turmoil in the credit markets forced LBO activity to a halt and jeopardized many of the private equity deals inked months earlier. Consolidation within the financial, technology, commodity, and energy sectors continued to provide numerous investment opportunities for the Fund, which remains fully invested.

The Demise of Bear Stearns and Widening Spreads

Returns during the quarter were slightly negative, down less than ⅓ of 1% for the period, with very little volatility. In the context of declining equity markets, continued troubles in the credit markets, and multiple hedge fund implosions, the Fund employed an opportunistic approach in this market environment. Treading water while positioning the Fund to profit once the market environment stabilizes has proven to be a sound strategy thus far in 2008. While the continuing credit market disruptions along with weak equity markets pressured returns, the demise of Bear Stearns contributed both directly and indirectly to the widening of deal spreads during the month of March. Bear Stearns is major player in merger arbitrage, managing a large proprietary merger arbitrage portfolio. The firm has built a solid reputation within the merger arb community, having built one of the largest and longest running merger arbitrage trading desks as well. Additionally, many hedge funds follow Bear's portfolio ideas and replicate their investment portfolio. As rumors of problems at Bear began to circulate in early March, many of their hedge fund clients that custody client assets within Bear's prime brokerage operation began to worry about getting access to their securities in the event that Bear Stearns were to cease business. Many of these clients also utilize leverage to enhance returns, and therefore, prior to transferring their portfolios out of Bear to another prime broker, had to unwind positions. Those clients with no alternative prime brokerage relationships began to liquidate portfolios entirely in order to position themselves to transfer cash out of their accounts.

Following Bear Stearns' forced sale to JP Morgan, speculation surrounding Bear's own portfolio liquidations have further contributed to the selling pressure in the shares of many arbitrage related stocks. Spreads in many of the larger, liquid deals widened out to levels not seen since last August's panic selling. Our investment team continues to take an opportunistic approach in adding to positions during this volatile period.

Strategic vs. Leveraged Transactions

Overall, with one or two exceptions, our portfolio is playing out as expected. Our focus has been on capital preservation and positioning the Fund to capture attractive spreads on deals that we see closing during the months ahead. Our performance setbacks have been due almost entirely to widening spreads over the past 4-6 weeks. Our hedges have become more expensive as well, reflecting the higher levels of volatility in the market, thus offsetting, to some degree, the wider spreads we are witnessing. The merger environment is also playing out as we expected following the credit crunch that began last August: large leveraged buy-outs (LBOs) have disappeared, leaving strategic buyers front and center in today's consolidation activity. Those LBOs that are taking place are smaller, less leveraged, and typically have a strong strategic rationale underpinning the transaction. Piero Novelli, head of global M&A at UBS, summed up the current merger environment well in a recent Financial Times article:

> *Financing markets are still quite difficult and leveraged buy-outs even more infrequent. This won't improve materially short term but could potentially do so by the end of Q3 or the beginning of Q4. Big-cap global corporates are still eager to invest and regard this as a buyers' market where they can unlock opportunities previously unavailable at reasonable terms.*

We view today's merger environment as being in a corrective phase, a return to normalcy, where deals that are struck between strategic operators within their respective industries are based on sound strategic logic, and not on financial engineering enabled by cheap financing. We're returning to a market environment where spreads are reflective of the risks associated with meeting the hurdles to a successful closing, not with handicapping the odds of another private equity topping bid (again, financed with cheap debt). With this view in mind, however, we don't expect that large multi-billion dollar deals will disappear (witness Microsoft's bid for Yahoo and BHP Billiton's bid for Rio Tinto, among others), but to be less frequent. The bulk of deal flow will once again return to deals within the $100 million to $5 billion range, with overall deal volumes and transaction levels returning to normalized levels as well. The universe of investable deals that our investment team tracks continues to be many times the number of deals selected for inclusion in our portfolio. We continue to focus on those strategic deals that meet our risk/reward criteria, in an environment that allows us the advantage of "cherry picking" the most attractive deals across the globe, both large and small.

The first quarter of 2008 witnessed continued stress in various sectors of the credit markets and the unwinding of leverage throughout the financial system. The collapse of numerous high profile credit and event driven hedge funds over the past six months, culminating late in the quarter with the demise of Bear Stearns, has defined the end of the easy credit cycle that began earlier this decade. It has been more than a year since the fall-out from the sub-prime sector of the mortgage industry began to pull the legs out from under the financial sector. The resulting contagion has exposed the folly, yet again, of the use of excessive leverage to amplify returns. Excessively leveraged buyouts proved to be the "sub-prime" for merger arbitrageurs during 2007, as many of our peers discovered. This market environment has been characterized by fear and forced selling by leveraged investors. For unleveraged funds such as ours, we've been presented with attractive buying opportunities. The investment team continues to position the Arbitrage Fund to take advantage of these opportunities and profit over the months ahead as the equity and fixed income markets move through the current corrective phase.

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 1.88%, 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.