



THE ARBITRAGE FUND

41 Madison Avenue
28th Floor
New York, New York 10010
800-295-4485
www.thearbfund.com

SEMI-ANNUAL REPORT
November 30, 2009
(Unaudited)

THE ARBITRAGE FUND
Statement of Assets and Liabilities
November 30, 2009 (Unaudited)

ASSETS

Investments:	
At acquisition cost	\$ 601,485,298
At value (Note 1)	\$ 617,433,102
Deposits with brokers for securities sold short (Note 1)	138,865,358
Deposits with swap counterparties	4,470,000
Receivable for capital shares sold	7,863,486
Receivable for investment securities sold	5,423,500
Unrealized appreciation on forward currency exchange contracts (Note 9)	1,526,321
Unrealized appreciation on spot currency exchange contracts	713
Unrealized appreciation on equity swap contracts	263,525
Prepaid expenses	129,758
Dividends receivable	116,746
Reclaims receivable	12,407
Total Assets	776,104,916

LIABILITIES

Securities sold short, at value (Note 1) (proceeds \$145,638,564)	148,571,234
Written options, at value (Notes 1 and 9) (premiums received \$5,778,828)	5,355,145
Bank overdraft denominated in foreign currency (proceeds \$44,668)	44,379
Payable for investment securities purchased	20,330,134
Unrealized depreciation on forward currency exchange contracts (Note 9)	3,406,517
Unrealized depreciation on equity swap contracts	1,028,945
Payable for capital shares redeemed	654,047
Payable to Adviser (Note 4)	545,181
Payable to Distributor (Note 4)	77,996
Payable to Administrator (Note 4)	44,081
Dividends payable on securities sold short (Note 1)	28,044
Payable to Trustees	15,851
Payable to Chief Compliance Officer (Note 4)	4,227
Other accrued expenses and liabilities	45,422
Total Liabilities	180,151,203

NET ASSETS

\$ 595,953,713

NET ASSETS CONSIST OF:

Paid-in capital	\$ 579,081,797
Accumulated net investment loss	(271,412)
Accumulated net realized gains on investments, equity swap contracts, securities sold short, written option contracts and foreign currencies	6,173,332
Net unrealized appreciation (depreciation) on:	
Investments	15,947,804
Equity swap contracts	(765,420)
Securities sold short	(2,932,670)
Written option contracts	423,683
Translation of assets and liabilities denominated in foreign currencies	(1,703,401)

NET ASSETS

\$ 595,953,713

CLASS R SHARES

Net assets applicable to Class R shares	\$ 339,890,856
Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value)	26,345,409
Net asset value and offering price per share ^(a)	\$ 12.90

CLASS I SHARES

Net assets applicable to Class I shares	\$ 256,062,857
Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value)	19,556,215
Net asset value and offering price per share ^(a)	\$ 13.09

^(a) Redemption price varies based on length of time held (Note 1).
See accompanying notes to financial statements.

THE ARBITRAGE FUND

Statement of Operations

For the Six Months Ended November 30, 2009 (Unaudited)

INVESTMENT INCOME

Dividends (net of withholding taxes of \$20,564)	\$ 4,656,878
Interest	698
Total Income	<u>4,657,576</u>

EXPENSES

Investment advisory fees (Note 4)	2,548,226
Distribution expense, Class R (Note 4)	340,424
Administration fees (Note 4)	207,044
Trustees' fees	24,898
Chief Compliance Officer fees (Note 4)	10,394
Dividend expense	2,504,888
Interest rebate expense	1,520,094
Transfer agent fees (Note 4)	119,406
Custodian and bank service fees	82,518
Registration and filing fees	59,392
Professional fees	45,351
Insurance expense	26,674
Printing of shareholder reports	20,334
Other expenses	6,217
Total Expenses	<u>7,515,860</u>
Fees waived by the Adviser (Note 4)	<u>(3,408)</u>
Net Expenses	<u>7,512,452</u>

NET INVESTMENT LOSS

(2,854,876)

REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS AND FOREIGN CURRENCIES

Net realized gains (losses) from:

Investments	98,566,942
Equity swap contracts	(144,826)
Securities sold short	(83,312,611)
Written option contracts	10,244,320
Foreign currency transactions (Note 6)	(9,056,137)

Net change in unrealized appreciation (depreciation) on:

Investments	(16,092,463)
Equity swap contracts	(646,483)
Securities sold short	14,374,247
Written option contracts	(233,955)
Foreign currency transactions (Note 6)	4,071,340

NET REALIZED AND UNREALIZED GAINS ON INVESTMENTS AND FOREIGN CURRENCIES

17,770,374

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS

\$ 14,915,498

See accompanying notes to financial statements.

THE ARBITRAGE FUND
Statement of Changes in Net Assets

	Six Months Ended November 30, 2009 (Unaudited)	Year Ended May 31, 2009
FROM OPERATIONS		
Net investment loss	\$ (2,854,876)	\$ (2,621,313)
Net realized gains (losses) from:		
Investments and equity swap contracts	98,422,116	(19,718,251)
Securities sold short	(83,312,611)	5,525,291
Written option contracts	10,244,320	12,124,366
Foreign currency transactions	(9,056,137)	4,515,636
Net change in unrealized appreciation (depreciation) on:		
Investments and equity swap contracts	(16,738,946)	26,706,277
Securities sold short	14,374,247	(16,059,789)
Written option contracts	(233,955)	300,102
Foreign currency transactions	4,071,340	(5,217,366)
Net increase in net assets resulting from operations	<u>14,915,498</u>	<u>5,554,953</u>
FROM DISTRIBUTIONS TO SHAREHOLDERS		
Distributions from net realized gains, Class R	—	(5,041,580)
Distributions from net realized gains, Class I	—	(3,356,818)
Decrease in net assets from distributions to shareholders	<u>—</u>	<u>(8,398,398)</u>
FROM CAPITAL SHARE TRANSACTIONS (Note 5)		
CLASS R		
Proceeds from shares sold	189,935,534	180,375,541
Shares issued in reinvestment of distributions	—	4,854,981
Proceeds from redemption fees collected (Note 1)	10,512	283,341
Payments for shares redeemed	<u>(78,935,515)</u>	<u>(77,181,667)</u>
Net increase in net assets from Class R share transactions	<u>111,010,531</u>	<u>108,332,196</u>
CLASS I		
Proceeds from shares sold	163,015,941	69,651,784
Shares issued in reinvestment of distributions	—	2,854,085
Proceeds from redemption fees collected (Note 1)	14,915	4,742
Payments for shares redeemed	<u>(21,121,100)</u>	<u>(43,805,570)</u>
Net increase in net assets from Class I share transactions	<u>141,909,756</u>	<u>28,705,041</u>
TOTAL INCREASE IN NET ASSETS	267,835,785	134,193,792
NET ASSETS		
Beginning of period	<u>328,117,928</u>	<u>193,924,136</u>
End of period	<u>\$595,953,713</u>	<u>\$ 328,117,928</u>
UNDISTRIBUTED NET INVESTMENT INCOME (ACCUMULATED NET INVESTMENT LOSS)	<u>\$ (271,412)</u>	<u>\$ 2,583,464</u>

See accompanying notes to financial statements.

THE ARBITRAGE FUND

Statement of Cash Flows

For the Six Months Ended November 30, 2009 (Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES

Net increase in net assets resulting from operations	\$ 14,915,498
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:	
Purchases of long-term portfolio investments	(1,337,722,204)
Proceeds from sales of long-term portfolio investments, excluding boxed positions	726,312,731
Purchases of short-term investments	(52,708,818)
Payments to cover securities sold short, excluding boxed positions	(290,422,475)
Proceeds from securities sold short	704,347,903
Realized gain on written option contracts	(10,244,320)
Premiums received from written option contracts	35,599,099
Premiums paid to closed option contracts	(25,923,278)
Realized gains from security transactions	(15,254,331)
Change in unrealized depreciation from security transactions and written options	1,952,171
Change in unrealized appreciation (depreciation) on forward and spot currency exchange contracts	(3,865,451)
Change in unrealized appreciation (depreciation) on equity swap contracts	646,483
Decrease in foreign currency	794,690
Increase in deposits with swap counterparties	(3,948,787)
Decrease in deposits with brokers for securities sold short	246,058
Decrease in receivable for investment securities sold	12,228,134
Increase in prepaid expenses	(58,429)
Increase in reclaims receivable	(710)
Decrease in dividends receivable	290,348
Increase in bank overdraft denominated in foreign currency	44,379
Decrease in payable for investment securities purchased	(4,043,015)
Increase in payable to Adviser	210,961
Increase in payable to Distributor	25,353
Increase in payable to Administrator	16,376
Increase in payable to Trustees	782
Decrease in dividends payable on securities sold short	(268,112)
Increase in payable to Chief Compliance Officer	394
Decrease in other accrued expenses and liabilities	(95,528)
Net cash used in operating activities	<u>(246,924,098)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from shares sold	352,951,475
Payments for shares redeemed, net of redemption fees collected	(100,031,188)
Increase in receivable for capital shares sold	(5,897,796)
Decrease in payable for capital shares redeemed	(98,393)
Net cash provided by financing activities	<u>246,924,098</u>

NET CHANGE IN CASH

CASH — BEGINNING OF PERIOD

CASH — END OF PERIOD

—
—
\$ —

See accompanying notes to financial statements.

THE ARBITRAGE FUND – CLASS R

Financial Highlights

Selected Per Share Data and Ratios for a Share Outstanding Throughout Each Period

	Six Months Ended Nov. 30, 2009 (Unaudited)	Year Ended May 31, 2009	Year Ended May 31, 2008	Year Ended May 31, 2007	Year Ended May 31, 2006	Year Ended May 31, 2005
Net asset value at beginning of period	\$ 12.43	\$ 12.79	\$ 12.91	\$ 12.73	\$ 11.88	\$ 12.52
Income (loss) from investment operations:						
Net investment income (loss)	(0.10) ^(d)	(0.16) ^(d)	(0.03) ^(d)	0.03 ^(d)	(0.10)	(0.19)
Net realized and unrealized gains on investments and foreign currencies	0.57 ^(d)	0.30 ^(d)	0.78 ^(d)	0.67 ^(d)	0.95	0.07
Total from investment operations	0.47	0.14	0.75	0.70	0.85	(0.12)
Less distributions:						
From net realized gains	—	(0.52)	(0.87)	(0.52)	—	(0.52)
Proceeds from redemption fees collected	0.00 ^(a)	0.02	0.00 ^(a)	0.00 ^(a)	0.00 ^(a)	0.00 ^(a)
Net asset value at end of period	\$ 12.90	\$ 12.43	\$ 12.79	\$ 12.91	\$ 12.73	\$ 11.88
Total return ^(b)	3.78%	1.64%	5.97%	5.64%	7.15%	(1.07)%
Net assets at end of period (000's)	\$ 339,891	\$ 219,338	\$ 112,092	\$ 75,207	\$ 87,643	\$ 134,035
Ratio of gross expenses to average net assets	3.64% ^(e)	3.28%	2.44%	2.38%	2.41%	2.36%
Ratio of gross expenses to average net assets excluding interest and dividend expense ^(c,e)	1.74% ^(e)	1.95%	1.96%	2.12%	2.12%	2.06%
Ratio of net expenses to average net assets excluding interest and dividend expense ^(c,e)	1.74% ^(e)	1.95%	1.90%	1.95%	1.95%	1.95%
Ratio of net expenses to average net assets excluding tax, interest and dividend expense	1.74% ^(e)	1.88%	1.90%	1.95%	1.95%	1.95%
Ratio of net investment income (loss) to average net assets:						
Before advisory fees waived and expenses reimbursed	(1.57%) ^(g)	(1.34%)	(0.31%)	0.06%	(0.44%)	(1.27%)
After advisory fees waived and expenses reimbursed	(1.57%) ^(g)	(1.34%)	(0.25%)	0.23%	(0.28%)	(1.16%)
Portfolio turnover rate	179% ^(f)	709%	712%	383%	394%	387%

^(a) Amount rounds to less than \$0.01 per share.

^(b) Total return is a measure of the change in the value of an investment in the Fund over the periods covered, which assumes any dividends or capital gains distributions are reinvested in shares of the Fund. Returns shown do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares.

^(c) Dividend expense totaled 1.18%, 0.74%, 0.48%, 0.26%, 0.29%, and 0.30% of average net assets for the periods ended November 30, 2009 and May 31, 2009, 2008, 2007, 2006 and 2005, respectively.

^(d) Per share amounts were calculated using average shares for the year or period.

^(e) Interest expense and interest rebate expense totaled 0.72% and 0.58% of average net assets for the periods ended November 30, 2009 and May 31, 2009, respectively.

^(f) Not annualized

^(g) Annualized

Amounts designated as “—” are either \$0 or have been rounded to \$0.

See accompanying notes to financial statements.

THE ARBITRAGE FUND – CLASS I

Financial Highlights

Selected Per Share Data and Ratios for a Share Outstanding Throughout Each Period

	Six Months Ended Nov. 30, 2009 (Unaudited)	Year Ended May 31, 2009	Year Ended May 31, 2008	Year Ended May 31, 2007	Year Ended May 31, 2006	Year Ended May 31, 2005
Net asset value at beginning of period	\$ 12.60	\$ 12.95	\$ 13.03	\$ 12.81	\$ 11.93	\$ 12.54
Income (loss) from investment operations:						
Net investment income (loss)	(0.06) ^(d)	(0.11) ^(d)	0.01 ^{(d)(e)}	0.06 ^(d)	(0.10)	(0.15)
Net realized and unrealized gains on investments and foreign currencies	0.55 ^(d)	0.28 ^(d)	0.78 ^(d)	0.68 ^(d)	0.98	0.06
Total from investment operations	0.49	0.17	0.79	0.74	0.88	(0.09)
Less distributions:						
From net realized gains	—	(0.52)	(0.87)	(0.52)	—	(0.52)
Proceeds from redemption fees collected	0.00 ^(a)	0.00 ^(a)	0.00 ^(a)	0.00 ^(a)	0.00 ^(a)	0.00 ^(a)
Net asset value at end of period	<u>\$ 13.09</u>	<u>\$ 12.60</u>	<u>\$ 12.95</u>	<u>\$ 13.03</u>	<u>\$ 12.81</u>	<u>\$ 11.93</u>
Total return ^(b)	<u>3.89%</u>	<u>1.69%</u>	<u>6.23%</u>	<u>5.92%</u>	<u>7.38%</u>	<u>(0.82)%</u>
Net assets at end of period (000's)	<u>\$ 256,063</u>	<u>\$ 108,780</u>	<u>\$ 81,832</u>	<u>\$ 91,935</u>	<u>\$ 88,011</u>	<u>\$ 94,417</u>
Ratio of gross expenses to average net assets	3.39% ^(h)	3.03%	2.20%	2.13%	2.16%	2.14%
Ratio of gross expenses to average net assets excluding interest and dividend expense ^{(c)(i)}	1.49% ^(h)	1.70%	1.72%	1.87%	1.87%	1.84%
Ratio of net expenses to average net assets excluding interest and dividend expense ^{(c)(i)}	1.49% ^(h)	1.70%	1.65%	1.70%	1.70%	1.70%
Ratio of net expenses to average net assets excluding tax, interest and dividend expense	1.49% ^(h)	1.63%	1.65%	1.70%	1.70%	1.70%
Ratio of net investment income (loss) to average net assets:						
Before advisory fees waived and expenses reimbursed	(0.94)% ^(h)	(0.87)%	0.04%	0.28%	(0.29)%	(1.05)%
After advisory fees waived and expenses reimbursed	(0.94)% ^(h)	(0.87)%	0.11%	0.46%	(0.12)%	(0.91)%
Portfolio turnover rate	179% ^(g)	709%	712%	383%	394%	387%

^(a) Amount rounds to less than \$0.01 per share.

^(b) Total return is a measure of the change in the value of an investment in the Fund over the periods covered, which assumes any dividends or capital gains distributions are reinvested in shares of the Fund. Returns shown do not reflect the deduction of taxes a shareholder would pay on Fund distributions or the redemption of Fund shares.

^(c) Dividend expense totaled 1.18%, 0.74%, 0.48%, 0.26%, 0.29%, and 0.30% of average net assets for the periods ended November 30, 2009 and May 31, 2009, 2008, 2007, 2006 and 2005, respectively.

^(d) Per share amounts were calculated using average shares for the year or period.

^(e) The amount shown for a share outstanding throughout the period does not accord with the aggregate net losses on investments for the period because of the sales and repurchases of Fund shares in relation to fluctuating market value of the investments of the Fund.

^(f) Interest expense and interest rebate expense totaled 0.72% and 0.58% of average net assets for the periods ended November 30, 2009 and May 31, 2009, respectively.

^(g) Not annualized

^(h) Annualized

Amounts designated as “—” are either \$0 or have been rounded to \$0.
See accompanying notes to financial statements.

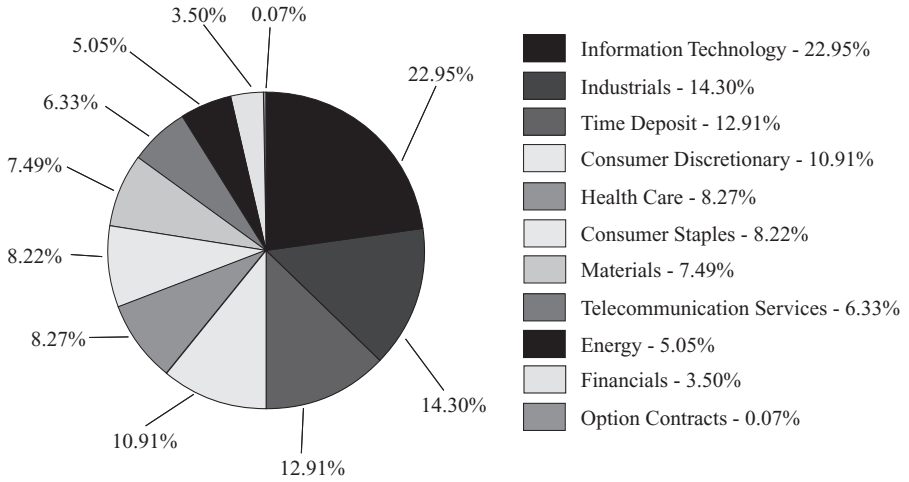
THE ARBITRAGE FUND

Portfolio Information

November 30, 2009 (Unaudited)

Sector Weighting (as a percentage of total investments)

The following chart shows the sector weightings of the Fund's investments in common stock and purchased options as of the report date.



THE ARBITRAGE FUND

Portfolio of Investments

November 30, 2009 (Unaudited)

Shares	COMMON STOCK — 89.41%	Value
	Banks — 0.07%	
19,862	Metro Bancorp, Inc. ^(a)	\$ 211,928
48,906	Republic First Bancorp, Inc. ^(a)	189,755
		<u>401,683</u>
	Beverages — 7.33%	
4,984	Diedrich Coffee, Inc. ^(a)	165,070
682,218	Pepsi Bottling Group, Inc. ^(b)	25,890,173
596,080	PepsiAmericas, Inc. ^(b)	17,643,968
		<u>43,699,211</u>
	Biotechnology — 0.24%	
249,509	Celldex Therapeutics, Inc. ^(a)	1,127,780
46,828	CombiMatrix Corp. ^(a)	273,944
		<u>1,401,724</u>
	Broadcasting, Newspapers, & Advertising — 6.77%	
49,799	DIRECTV, CIA ^(a)	1,575,143
121,198	Liberty Media Corp. - Starz, Ser A ^(a)	5,799,324
633,364	Marvel Entertainment, Inc. ^{(a)(b)}	32,966,596
		<u>40,341,063</u>
	Chemicals — 3.24%	
226,303	CF Industries Holdings, Inc. ^(c)	19,317,224
	Coal — 0.74%	
286,401	Felix Resources Ltd.	4,406,855
199,828	South Australian Coal Ltd. ^{(a)(e)}	18,565
		<u>4,425,420</u>
	Commercial Services & Supplies — 4.30%	
1,159,366	ICT Group, Inc. ^{(a)(b)}	18,515,075
1,052,545	Sunair Services Corp. ^(a)	2,831,346
537,893	Waste Services, Inc. ^{(a)(b)}	4,281,628
		<u>25,628,049</u>
	Computers & Services — 7.96%	
411,525	Affiliated Computer Services, Inc., CI A ^{(a)(b)(c)}	22,716,180
883,700	Avocent Corp. ^(a)	22,074,826
1,578,757	NYFIX, Inc. ^{(a)(e)}	2,644,418
		<u>47,435,424</u>
	Consumer Products — 3.16%	
310,037	Black & Decker Corp. ^(b)	18,816,146

THE ARBITRAGE FUND
Portfolio of Investments (Continued)
November 30, 2009 (Unaudited)

Shares	COMMON STOCK — 89.41% (Continued)	Value
	Diagnostic Products — 3.37%	
392,333	Varian, Inc. ^{(a)(c)}	\$ 20,083,526
	Diversified Consumer Services — 0.91%	
727,455	Keystone North America, Inc.	5,451,169
	Financial Services — 2.52%	
554,336	Financial Federal Corp.	15,022,506
	Food Products — 0.26%	
9,966	Cadbury Plc ADR ^(c)	531,886
381,768	Monterey Gourmet Foods, Inc. ^(a)	1,023,138
		<u>1,555,024</u>
	Food-Retail — 1.10%	
912,112	Super De Boer NV ^(a)	6,537,485
	Health Care Technology — 3.43%	
1,255,778	Candela Corp. ^(a)	3,641,756
786,813	IMS Health, Inc. ^(b)	16,806,326
		<u>20,448,082</u>
	Insurance — 0.32%	
361,229	AXA Asia Pacific Holdings Ltd.	1,917,773
	Marine Transportation — 1.65%	
958,208	OSG America LP	9,812,050
	Medical Products & Services — 1.50%	
1,373,830	Allion Healthcare, Inc. ^{(a)(b)}	8,929,895
	Metals & Mining — 4.51%	
1,429,076	Aquiline Resources, Inc. ^(a)	9,488,766
60,000	Canplats Resources Corp. ^(a)	190,657
2,755,264	Polaris Metals NL ^(a)	1,916,740
1,475,479	Sino Gold Mining Ltd. ^(a)	10,669,563
4,010,088	United Minerals Corp. NL ^(a)	4,624,992
		<u>26,890,718</u>
	Miscellaneous Business Services — 2.75%	
1,202,530	MPS Group, Inc. ^{(a)(b)}	16,414,535
	Networking Products — 8.06%	
1,768,661	3Com Corp. ^{(a)(c)}	13,035,032
487,297	Starent Networks Corp. ^{(a)(b)(c)}	16,806,873
984,929	Switch & Data Facilities Co., Inc. ^{(a)(b)}	18,181,789
		<u>48,023,694</u>

THE ARBITRAGE FUND
Portfolio of Investments (Continued)
November 30, 2009 (Unaudited)

Shares	COMMON STOCK — 89.41% (Continued)	Value
	Office Electronics — 0.05%	
24,490	OCE NV	\$ 315,836
	Oil-Field Services — 3.04%	
963,917	BJ Services Co. ^(b)	18,102,361
	Petroleum Exploration & Production — 1.02%	
48,300	Encore Acquisition Co. ^{(a)(b)(c)}	2,174,466
416,768	Harvest Energy Trust	3,917,639
		<u>6,092,105</u>
	Petroleum Field Machinery & Equipment — 0.44%	
39,937	Cameron International Corp. ^{(a)(c)}	1,509,618
83,963	Enerflex Systems Income Fund	1,083,137
		<u>2,592,755</u>
	SemiConductors — 3.52%	
1,762,746	Intellon Corp. ^{(a)(b)}	13,061,948
723,735	Semitool, Inc. ^{(a)(b)}	7,939,373
		<u>21,001,321</u>
	Software — 4.18%	
1,318,407	i2 Technologies, Inc. ^{(a)(b)}	24,258,689
804,867	SoftBrands, Inc. ^{(a)(f)}	—
1,098,169	On2 Technologies, Inc. ^(a)	647,920
		<u>24,906,609</u>
	Specialty Retail — 0.29%	
79,651	Dress Barn, Inc. ^{(a)(c)}	1,710,104
	Telephones & Telecommunications — 3.74%	
497,799	Iowa Telecommunications Services, Inc.	7,915,004
505,120	Tandberg ASA	14,347,372
		<u>22,262,376</u>
	Transportation Services — 6.12%	
349,006	Burlington Northern Santa Fe Corp. ^{(b)(c)}	34,307,290
171,278	Genesis Lease Ltd. ADR	1,397,628
95,642	Livingston International Income Fund ^(a)	764,773
		<u>36,469,691</u>
	Wireless Telecommunication Services — 2.82%	
321,667	iPCS, Inc. ^(a)	7,720,008
2,450,596	Sprint Nextel Corp. ^{(a)(c)}	9,091,711
		<u>16,811,719</u>
	Total Common Stock (Cost \$516,264,018)	<u>\$532,817,278</u>

THE ARBITRAGE FUND
Portfolio of Investments (Continued)
November 30, 2009 (Unaudited)

Shares	PREFERRED STOCK — 0.71%	Value
328,457	Banks — 0.71% Zions Bancorporation ^(c) (Cost \$4,287,345).....	\$ 4,246,949
Shares	WARRANTS ^(a) — 0.03%	Value
308,857	Buru Energy Ltd., Expires 10/10 ^(f)	\$ —
105,841	CombiMatrix Corp., Expires 05/14.....	198,981
	Total Warrants (Cost \$87,999)	\$ 198,981
Contracts	CALL OPTION CONTRACTS ^(a) — 0.01%	Value
249	Agrium, Inc., 12/09 at \$60	\$ 17,430
200	Baker Hughes, Inc., 12/09 at \$46	3,000
149	12/09 at \$45	3,725
996	Denbury Resources, Inc., 12/09 at \$15	12,450
	Total Call Option Contracts (Cost \$127,219)	\$ 36,605
Contracts	PUT OPTION CONTRACTS ^(a) — 0.07%	Value
500	Atheros Communications, Inc., 12/09 at \$25	\$ 10,000
249	Baker Hughes, Inc., 12/09 at \$40	28,635
498	12/09 at \$41	80,925
997	Burlington Northern Santa Fe Corp., 12/09 at \$85	4,985
100	Cadbury Plc, 01/10 at \$50	7,250
249	Cameron International Corp., 12/09 at \$37.5	29,880
760	CF Industries Holdings, Inc., 12/09 at \$80	100,700
483	Encore Acquisition Co., 12/09 at \$40	6,037
148	Equinix, Inc., 01/10 at \$85	17,390
42	01/10 at \$90	8,925
60	12/09 at \$85	2,100
101	12/09 at \$90	8,585

THE ARBITRAGE FUND
Portfolio of Investments (Continued)
November 30, 2009 (Unaudited)

Contracts	PUT OPTION CONTRACTS^(a) — 0.07% (Continued)	Value
269	Oil Services Holders Trust, 12/09 at \$115	\$ 70,343
35	Peet's Coffee & Tea, Inc., 12/09 at \$30	1,925
249	People's United Financial, Inc., 01/10 at \$15	4,358
750	Sun Microsystems, Inc., 12/09 at \$8	9,375
100	SYKES Enterprises, Inc., 01/10 at \$20	3,000
387	Varian, Inc., 12/09 at \$45	3,870
498	Xerox Corp., 12/09 at \$7	2,490
1,157	Zions Bancorporation, 12/09 at \$11	20,248
548	12/09 at \$10	<u>6,850</u>
	Total Put Option Contracts (Cost \$1,013,299)	\$ 427,871
Face Amount	TIME DEPOSIT — 14.12%	Value
\$79,705,418	State Street Bank, 0.010% ^(d) (Cost \$79,705,418)	<u>\$ 79,705,418</u>
	Total Investments at Value — 104.35% (Cost \$601,485,298)	<u>\$617,433,102</u>

THE ARBITRAGE FUND
Portfolio of Investments (Continued)
November 30, 2009 (Unaudited)

As of November 30, 2009, the Fund had long equity swap contracts outstanding as follows:

Shares		Unrealized Appreciation (Depreciation)
420,000	Breaker Energy Ltd., Equity Swap (Counterparty: Royal Bank of Canada) (Cost \$2,276,347, Market Value \$2,406,260) Terminating 10/19/10	\$ 129,913
1,534,569	Dragon Oil Plc, Equity Swap (Counterparty: Goldman Sachs International) (Cost \$11,010,945, Market Value \$10,300,135) Terminating 11/05/10	(710,810)
409,700	Enerflex Systems Income Fund, Equity Swap (Counterparty: Royal Bank of Canada) (Cost \$5,541,095, Market Value \$5,285,198) Terminating 10/25/10	(255,897)
50,000	Livingston International Income Fund, Equity Swap (Counterparty: Goldman Sachs International) (Cost \$385,242, Market Value \$399,810) Terminating 10/14/10	14,568
1,120,502	Super De Boer NV, Equity Swap (Counterparty: Goldman Sachs International) (Cost \$7,912,059, Market Value \$8,031,103) Terminating 10/22/10	<u>119,044</u>
	(Total Cost \$27,125,688, Total Market Value \$26,422,506).....	<u>\$ (703,182)</u>

Percentages are based on net assets of \$595,953,713.

^(a) Non-income producing security.

^(b) All or a portion of the shares have been committed as collateral for open short positions.

^(c) Underlying security for a written/purchased call/put option.

^(d) Rate shown is the simple yield as of November 30, 2009.

^(e) Security fair valued using methods determined in good faith by the Pricing Committee. As of November 30, 2009, the total market value of these securities was \$2,662,983, representing 0.4% of net assets.

^(f) Security considered illiquid. On November 30, 2009, the total market value of these securities was \$0, representing less than 0.1% of net assets.

ADR — American Depositary Receipt

Cl — Class

LP — Limited Partnership

Ltd. — Limited

Plc — Public Limited Company

Ser — Series

Amounts designated as “—” are either \$0 or have been rounded to \$0.

See accompanying notes to financial statements.

THE ARBITRAGE FUND
Schedule of Securities Sold Short
November 30, 2009 (Unaudited)

Shares	COMMON STOCK — 23.53%	Value
	Air Freight & Logistics — 0.24%	
170,975	AerCap Holdings NV ^(a)	\$ 1,401,995
	Banks — 1.18%	
431,748	People's United Financial, Inc. ^{(a)(b)}	7,033,175
	Beverages — 3.15%	
302,010	PepsiCo, Inc. ^{(a)(b)}	18,791,062
	Broadcasting, Newspapers, & Advertising — 2.92%	
49,808	DIRECTV, Cl A ^(a)	1,575,442
121,199	Liberty Media Corp. - Starz, Ser A ^(a)	5,799,372
332,548	Walt Disney Co. ^{(a)(b)}	10,049,600
		<u>17,424,414</u>
	Chemicals — 2.10%	
30,567	Agrium, Inc. ^{(a)(b)}	1,707,473
126,517	CF Industries Holdings, Inc. ^{(a)(b)}	10,799,491
		<u>12,506,964</u>
	Commercial Services & Supplies — 0.71%	
296,397	IESI-BFC Ltd. ^(a)	4,202,594
	Computers & Services — 1.51%	
365,650	SYKES Enterprises, Inc. ^{(a)(b)}	8,976,708
	Consumer Products — 1.89%	
231,882	Stanley Works ^{(a)(b)}	11,262,509
	Insurance — 0.24%	
249,103	AMP Ltd. ^(a)	1,409,139
	Machinery — 0.41%	
99,993	Toromont Industries Ltd. ^(a)	2,423,354
	Medical Products & Services — 0.61%	
365,270	Syneron Medical Ltd. ^(a)	3,652,700
	Metals & Mining — 3.05%	
682,462	Eldorado Gold Corp. ^{(a)(b)}	9,088,800
4,440	Goldcorp, Inc. ^(a)	185,602
356,872	Pan American Silver Corp. ^(a)	8,923,069
		<u>18,197,471</u>

THE ARBITRAGE FUND
Schedule of Securities Sold Short (Continued)
November 30, 2009 (Unaudited)

Shares	COMMON STOCK — 23.53% (Continued)	Value
	Miscellaneous Business Services — 2.37%	
100,591	Equinix, Inc. ^{(a)(b)}	\$ 9,675,848
579,826	Xerox Corp. ^{(a)(b)}	<u>4,464,660</u>
		<u>14,140,508</u>
	Networking Products — 0.90%	
187,808	Atheros Communications, Inc. ^{(a)(b)}	<u>5,346,894</u>
	Oil-Field Services — 1.28%	
187,743	Baker Hughes, Inc. ^{(a)(b)}	<u>7,648,650</u>
	Software — 0.63%	
160,716	JDA Software Group, Inc. ^{(a)(b)}	<u>3,773,612</u>
	Telephones & Telecommunications — 0.32%	
189,224	Windstream Corp. ^{(a)(b)}	<u>1,877,102</u>
	Wireless Telecommunication Services — 0.02%	
39,866	Sprint Nextel Corp. ^{(a)(b)}	<u>147,903</u>
	Total Common Stock (Proceeds \$137,141,236)	<u>\$140,216,754</u>
Shares	EXCHANGE TRADED FUNDS — 1.40%	Value
29,900	Oil Services Holders Trust ^{(a)(b)}	\$ 3,536,572
43,847	SPDR Trust, Ser 1	<u>4,817,908</u>
	Total Exchange Traded Funds (Proceeds \$8,497,328)	<u>\$ 8,354,480</u>
	Total Securities Sold Short — 24.93% (Proceeds \$145,638,564)	<u>\$148,571,234</u>

As of November 30, 2009, the Fund had short equity swap contracts outstanding as follows:

Shares		Unrealized Depreciation
199,400	NAL Oil & Gas Trust, Equity Swap (Counterparty: Royal Bank of Canada) (Cost \$2,343,612, Market Value \$2,405,850) Terminating 10/19/10.....	<u>\$ (62,238)</u>

Percentages are based on net assets of \$595,953,713.

^(a) Non-income producing security.

^(b) Underlying security for a written/purchased call/put option.

Cl — Class

Ltd. — Limited

Ser — Series

SPDR — Standard & Poor's Depositary Receipt

See accompanying notes to financial statements.

THE ARBITRAGE FUND
Schedule of Open Options Written
November 30, 2009 (Unaudited)

Contracts	WRITTEN CALL OPTIONS ^(a) — 0.82%	Value
	3Com Corp.,	
2,160	12/09 at \$7.5	\$ 10,800
4,445	01/10 at \$7.5	33,338
	Affiliated Computer Services, Inc.,	
748	12/09 at \$55	71,060
	Agrium, Inc.,	
299	12/09 at \$55	77,740
	Atheros Communications, Inc.,	
500	12/09 at \$30	22,500
498	12/09 at \$27.5	83,415
	Baker Hughes, Inc.,	
299	12/09 at \$39	74,750
100	12/09 at \$40	18,500
149	12/09 at \$41	20,115
349	12/09 at \$42	31,410
200	12/09 at \$43	12,000
	Burlington Northern Santa Fe Corp.,	
576	12/09 at \$100	2,880
	Cameron International Corp.,	
249	12/09 at \$40	12,450
249	12/09 at \$37.5	36,727
	CF Industries Holdings, Inc.,	
249	12/09 at \$80	165,585
349	12/09 at \$85	118,660
906	12/09 at \$90	126,840
166	12/09 at \$95	7,055
	Dress Barn, Inc.,	
796	12/09 at \$17.5	314,420
	Eldorado Gold Corp.,	
601	12/09 at \$10	195,325
350	12/09 at \$15	4,375
511	12/09 at \$12.5	53,655
169	01/10 at \$10	58,305
	Encore Acquisition Co.,	
483	12/09 at \$45	49,507
80	12/09 at \$50	800
	Equinix, Inc.,	
30	12/09 at \$105	750
50	12/09 at \$110	500
367	12/09 at \$90	260,570
81	12/09 at \$95	27,135
50	12/09 at \$100	5,375
25	12/09 at \$115	125

THE ARBITRAGE FUND
Schedule of Open Options Written (Continued)
November 30, 2009 (Unaudited)

Contracts	WRITTEN CALL OPTIONS ^(a) — 0.82% (Continued)	Value
	Equinix, Inc. (continued),	
152	01/10 at \$105	\$ 19,380
152	01/10 at \$110	7,980
32	01/10 at \$85	36,480
38	01/10 at \$90	31,540
	JDA Software Group, Inc.,	
727	12/09 at \$20	261,720
189	12/09 at \$25	5,197
287	12/09 at \$17.5	169,330
897	12/09 at \$22.5	132,307
	Oil Services Holders Trust,	
134	12/09 at \$120	41,540
134	12/09 at \$125	17,755
75	12/09 at \$130	3,712
	Peet's Coffee & Tea, Inc.,	
19	12/09 at \$45	95
	People's United Financial, Inc.,	
864	01/10 at \$15	127,440
249	01/10 at \$17.5	4,358
	PepsiCo, Inc.,	
600	12/09 at \$60	136,500
157	12/09 at \$62.5	9,420
	Sprint Nextel Corp.,	
10,094	12/09 at \$3	736,862
3,193	12/09 at \$4	33,527
11,432	12/09 at \$3.5	371,540
2,265	01/10 at \$5	16,987
769	01/10 at \$4	18,841
971	01/10 at \$6	2,913
	Stanley Works,	
224	12/09 at \$45	84,000
798	12/09 at \$50	37,905
1,059	12/09 at \$47.5	172,088
	Starent Networks Corp.,	
58	12/09 at \$35	435
	SYKES Enterprises, Inc.,	
149	12/09 at \$25	7,450
150	12/09 at \$22.5	33,000
100	01/10 at \$22.5	24,500
	Walt Disney Co.,	
100	12/09 at \$30	7,000
722	12/09 at \$29	102,885
747	12/09 at \$28	171,810

THE ARBITRAGE FUND
Schedule of Open Options Written (Continued)
November 30, 2009 (Unaudited)

Contracts	WRITTEN CALL OPTIONS ^(a) — 0.82% (Continued)	Value
523	Walt Disney Co. (continued), 12/09 at \$31	\$ 14,382
1,517	Windstream Corp., 12/09 at \$10	18,963
399	01/10 at \$10	6,983
7,244	Xerox Corp., 12/09 at \$8	90,550
498	01/10 at \$7.5	24,900
549	Zions Bancorporation, 12/09 at \$16	5,490
1,156	12/09 at \$15	14,450
	Total Written Call Options (Premiums Received \$5,184,273)	<u>\$ 4,898,882</u>
Contracts	WRITTEN PUT OPTIONS ^(a) — 0.08%	Value
299	Agrium, Inc., 12/09 at \$55	\$ 52,325
498	Baker Hughes, Inc., 12/09 at \$38	26,145
299	12/09 at \$39	23,920
350	Burlington Northern Santa Fe Corp., 12/09 at \$95	4,375
300	12/09 at \$100	63,000
100	01/10 at \$95	6,000
199	01/10 at \$100	45,770
526	CF Industries Holdings, Inc., 12/09 at \$70	13,150
996	Denbury Resources, Inc., 12/09 at \$12.5	24,900
151	JDA Software Group, Inc., 12/09 at \$25	27,558
4,228	Xerox Corp., 12/09 at \$8	169,120
	Total Written Put Options (Premiums Received \$594,555)	<u>\$ 456,263</u>
	Total Open Options Written — 0.90% (Premiums Received \$5,778,828)	<u>\$ 5,355,145</u>

Percentages are based on net assets of \$595,953,713.

^(a) Non-income producing security.

See accompanying notes to financial statements.

THE ARBITRAGE FUND
Notes to the Financial Statements
November 30, 2009 (Unaudited)

1. Organization and Significant Accounting Policies

The Arbitrage Fund (the “Trust”) was organized as a Delaware business trust on December 22, 1999 and is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as an open-end management investment company issuing its shares in series, each series representing a distinct portfolio with its own investment objective and policies. The one series presently authorized is The Arbitrage Fund (the “Fund”), a diversified series, which offers two classes of shares. Class R shares and Class I shares commenced operations on September 17, 2000 and October 17, 2003, respectively.

The investment objective of the Fund is to achieve capital growth by engaging in merger arbitrage.

The Fund’s two classes of shares, Class R and Class I, represent interests in the same portfolio of investments and have the same rights, but differ primarily in the expenses to which they are subject and the investment eligibility requirements. Class R shares are subject to an annual distribution fee of up to 0.25% of the Fund’s average daily net assets attributable to Class R shares, whereas Class I shares are not subject to any distribution fees.

Financial Accounting Standards Board (“FASB”) issued FASB ASC 105 (formerly FASB Statement No. 168), The “*FASB Accounting Standards Codification*™ and the *Hierarchy of Generally Accepted Accounting Principles* (“ASC 105”). ASC 105 established the FASB Accounting Standards Codification™ (“Codification” or “ASC”) as the single source of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative.

Following the Codification, the FASB did not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it issued Accounting Standards Updates, which served to update the Codification, provided background information about the guidance and provided the basis for conclusions on the changes to the Codification.

GAAP was not intended to be changed as a result of the FASB’s Codification project, but it changed the way the guidance is organized and presented. As a result, these changes had a significant impact on how companies reference GAAP in their financial statements and in their accounting policies. The Fund implemented the Codification as of November 30, 2009.

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

The following is a summary of the Fund's significant accounting policies:

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

Valuation of investments – The Fund's portfolio securities are valued as of the close of trading of the New York Stock Exchange ("NYSE") (normally 4:00 p.m., Eastern time). Common stocks and other securities, including open short positions, that are traded on a securities exchange are valued at the last quoted sales price at the close of regular trading on the day the valuation is made. Securities which are quoted by NASDAQ are valued at the NASDAQ Official Closing Price. Price information on listed stocks is taken from the exchange where the security is primarily traded. Securities which are listed on an exchange but which are not traded on the valuation date are valued at the mean of the most recent bid and asked prices. Put and call options and securities traded in the over-the-counter market are valued at the mean of the most recent bid and asked prices. Unlisted securities for which market quotations are readily available are valued at the latest quoted bid price. Other assets and securities for which no quotations are readily available are valued at fair value as determined in good faith under the supervision of the Board of Trustees of the Trust. Some of the more common reasons that may necessitate that a security be valued at fair value include: the security's trading has been halted or suspended; the security has been delisted from a national exchange; the security's primary trading market is temporarily closed at a time when under normal conditions it would be open; or the security's primary pricing source is not able or willing to provide a price. Such methods of fair valuation may include, but are not limited to: multiple of earnings, multiple of book value, discount from market of a similar freely traded security, purchase price of a security, subsequent private transactions in the security or related securities, or a combination of these and other factors. Foreign securities are translated from the local currency into U.S. dollars using currency exchange rates supplied by a quotation service (see Note 6). As of November 30, 2009, the market value of securities valued in accordance with the fair value procedures was \$2,662,983 and represented 0.4% of net assets.

In accordance with the authoritative guidance on fair value measurements and disclosure under GAAP, the Fund discloses fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

(Level 1) and the lowest priority to unobservable inputs (Level 3). The guidance establishes three levels of the fair value hierarchy as follows:

- Level 1 — Unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the Fund has the ability to access at the measurement date;
- Level 2 — Quoted prices which are not active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3 — Prices, inputs or exotic modeling techniques which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Investments are classified within the level of the lowest significant input considered in determining fair value. Investments classified within Level 3, whose fair value measurement considers several inputs, may include Level 1 or Level 2 inputs as components of the overall fair value measurement. The table below sets forth information about the level within the fair value hierarchy at which the Fund's investments are measured at November 30, 2009:

Investments in Securities	Level 1	Level 2	Level 3	Total
Common stock	\$530,154,295	\$2,662,983*	\$ —	\$532,817,278
Preferred stock	4,246,949	—	—	4,246,949
Warrants	198,981	—	—	198,981
Call option contracts	36,605	—	—	36,605
Put option contracts	427,871	—	—	427,871
Time Deposit	79,705,418	—	—	79,705,418
Total Investments in Securities	\$614,770,119	\$2,662,983	\$ —	\$617,433,102

*Represents securities valued at fair value by the Pricing Committee. Refer to the Portfolio of Investments for details.

As of November 30, 2009, all of the Fund's investments in securities sold short, equity swap contracts, written options, and forward foreign currency contracts were considered Level 1.

For the six months ended November 30, 2009, there have been no significant changes to the Fund's fair value methodologies.

Share valuation and Redemption Fees – The net asset value per share of each class of shares of the Fund is calculated daily by dividing the total value of the Fund's assets attributable to that class, less liabilities attributable to that class, by the number of shares of that class outstanding. The offering price and redemption price per share of each class of the Fund is equal to the net asset value per share, except that, shares of each class are subject to a redemption fee of 2% if redeemed within 90 days of the date of purchase. For the six months ended November 30, 2009, proceeds from redemption fees were \$10,512 in Class R and \$14,915 in Class I.

THE ARBITRAGE FUND

Notes to the Financial Statements (Continued)

November 30, 2009 (Unaudited)

Investment income – Interest income is accrued as earned. Dividend income and expense are recorded on the ex-dividend date.

Dividends and distributions to shareholders – Dividends arising from net investment income and net capital gain distributions, if any, are declared and paid at least annually to shareholders of the Fund. The amount of distributions from net investment income and net realized gains are determined in accordance with Federal income tax regulations which may differ from accounting principles generally accepted in the United States of America. These “book/tax” differences are either temporary or permanent in nature and are primarily due to deferred wash sale losses, deferred post October foreign currency loss and constructive gain from sale of securities.

The tax character of dividends and distributions declared during the years ended May 31, 2009 and May 31, 2008 was as follows:

Year Ended	Ordinary Income	Long-Term Capital Gains	Total Distributions
5/31/09	\$ 8,398,398	\$ —	\$ 8,398,398
5/31/08	10,600,214	400,419	11,000,633

Allocation between classes – Investment income earned, realized capital gains and losses, and unrealized appreciation and depreciation are allocated daily to each class of shares based upon its proportionate shares of total net assets of the Fund. Class specific expenses are charged directly to the class incurring the expense. Common expenses which are not attributable to a specific class are allocated daily to each class of shares based upon its proportionate share of total net assets of the Fund.

Security transactions – Security transactions are accounted for on trade date. Gains and losses on securities sold are determined on a specific identification basis.

Short positions – The Fund may sell securities short for economic hedging purposes. For financial statement purposes, an amount equal to the settlement amount is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the short position. Subsequent fluctuations in the market prices of securities sold, but not yet purchased, may require purchasing the securities at prices which may differ from the market value reflected on the Statement of Assets and Liabilities. The Fund is liable for any dividends payable on securities while those securities are in a short position. As collateral for its short positions, the Fund is required under the 1940 Act to maintain assets consisting of cash, cash equivalents or liquid securities. The amount of the collateral is required to be adjusted daily to reflect changes in the value of the securities sold short. The Fund is charged an interest rebate expense by the prime broker on securities sold short. The interest rebate expense is charged for the duration of time that a security is sold short and is shown on the Statement of Operations.

THE ARBITRAGE FUND

Notes to the Financial Statements (Continued)

November 30, 2009 (Unaudited)

Written option transactions – The Fund may write (sell) covered call options to hedge portfolio investments and to reduce the risks associated with some of its investments. Put options may also be written by the Fund as part of a merger arbitrage strategy involving a pending corporate reorganization. When the Fund writes (sells) an option, an amount equal to the premium received by the Fund is included in the Statement of Assets and Liabilities as an asset and an equivalent liability. The amount of the liability is subsequently marked-to-market to reflect the current value of the option written. By writing an option, the Fund may become obligated during the term of the option to deliver or purchase the securities underlying the option at the exercise price if the option is exercised. Option contracts are valued at the average of the current bid and asked price reported on the day of valuation. When an option expires on its stipulated expiration date or the Fund enters into a closing purchase transaction, the Fund realizes a gain or loss if the cost of the closing purchase transaction differs from the premium received when the option was sold without regard to any unrealized gain or loss on the underlying security, and the liability related to such option is eliminated. When an option is exercised, the premium originally received decreases the cost basis of the security (or increases the proceeds on a sale of the security).

Equity swap contracts – The Fund may invest in swaps for the purpose of managing its exposure to interest rate, credit or market risk. Additionally, the Fund enters into equity swap agreements for the purpose of attempting to obtain a desired return on, or exposure to, certain equity securities or equity indices in an expedited manner or at a lower cost to the Fund than if the Fund had invested directly in such securities. An equity swap contract entitles the Fund to receive from the counterparty any appreciation and dividends paid on an individual security, while obligating the Fund to pay the counterparty any depreciation on the security. Fluctuations in the value of an open contract are recorded daily as a net unrealized gain or loss. The Fund will realize a gain or loss upon termination or reset of the contract. Either party, under certain conditions, may terminate the contract prior to the contract's expiration date. Collateral, in the form of cash or securities, may be required to be held in segregated accounts with the Fund's custodian and/or counterparty's broker. Risks may exceed amounts recognized on the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts' terms and the possible lack of liquidity with respect to the swap agreements. As of November 30, 2009, the Fund had long equity swap contracts outstanding with net unrealized depreciation of \$703,182 and short equity swap contracts outstanding with net unrealized depreciation of \$62,238.

The Fund enters into forward foreign currency exchange contracts as a way of managing foreign exchange rate risk. The Fund may enter into these contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge or cross-hedge against either specific transactions or portfolio positions. The objective of the Fund's foreign currency hedging transactions is to reduce risk that the U.S. dollar value of the Fund's securities denominated in foreign currency will decline in value due to changes in foreign currency exchange rates. All foreign currency exchange contracts are "marked-to-

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

market” daily at the applicable translation rates resulting in unrealized gains or losses. Risks may arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

Federal income tax – It is the Fund’s policy to continue to comply with the special provisions of Subchapter M of the Internal Revenue Code applicable to regulated investment companies. As provided therein, in any fiscal year in which a fund so qualifies and distributes at least 90% of its taxable net income, a fund (but not the shareholders) will be relieved of Federal income tax on the income distributed. Accordingly, no provision for income taxes has been made.

In order to avoid imposition of the excise tax applicable to regulated investment companies, it is also the Fund’s intention to declare as dividends in each calendar year at least 98% of its net investment income (earned during the calendar year) and 98% of its net realized capital gains (earned during the twelve months ended October 31) plus undistributed amounts from prior years.

The following information is computed on a tax basis for each item as of November 30, 2009:

Cost of portfolio investments (including securities sold short and written options)	<u>\$450,067,906</u>
Gross unrealized appreciation	\$ 19,786,844
Gross unrealized depreciation	(6,348,027)
Net unrealized appreciation	<u>\$ 13,438,817</u>

As of May 31, 2009, the components of Distributable Earnings on a tax basis were as follows:

Undistributed ordinary income	\$ 8,443,277
Post-October capital losses	(1,787,513)
Post-October currency losses	(6,240,058)
Net unrealized appreciation	1,570,512
Net unrealized depreciation on translation of assets and liabilities in foreign currencies	(5,774,741)
Other temporary differences	5,744,941
Total Distributable Earnings	<u>\$ 1,956,418</u>

The difference between the Federal income tax cost of portfolio investments and the cost reported on the Statement of Assets and Liabilities is due to the tax deferral of losses on wash sales, mark-to-market on open forwards, disallowed losses on tax straddles, gains and losses from Passive Foreign Investment Companies, income from Master Limited Partnerships and gains on the constructive sale of securities.

Post-October capital losses and Post-October currency losses represent losses realized on investment transactions from November 1, 2008 through May 31, 2009 that, in accordance with Federal income tax regulations, the Fund may elect to defer and treat as having arisen in the following year.

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

The Fund evaluates tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether it is "more-likely than-not" (i.e., greater than 50-percent) that each tax position will be sustained upon examination by a taxing authority based on the technical merits of the position. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. The Fund did not record any tax provision in the current period. However, management's conclusions regarding tax positions taken may be subject to review and adjustment at a later date based on factors including, but not limited to, examination by tax authorities (i.e., the last 3 tax year ends, as applicable), on-going analysis of and changes to tax laws, regulations and interpretations thereof.

2. Investment Transactions

During the six months ended November 30, 2009, cost of purchases and proceeds from sales and maturities of investment securities, other than short-term investments, U.S. government securities, equity swap contracts, option contracts and securities sold short, amounted to \$1,337,722,204 and \$726,312,731, respectively.

3. Line of Credit

The Fund entered into an agreement which enables them to participate in a \$25,000,000 unsecured committed revolving line of credit with State Street Bank and Trust Company (the "Custodian"). Borrowings will be made solely to temporarily finance the purchase or sale of securities or to finance the redemption of the shares of an investor of the Fund. Interest is charged to the Fund based on its borrowings at a rate per annum equal to the Custodian's overnight federal funds rate plus 0.75%. In addition, a commitment fee of 0.10% per annum payable at the end of each calendar quarter, is accrued by the Fund based on its average daily unused portion of the line of credit. Such fees are included in custodian and bank service fees on the Statement of Operations. Prior to September 25, 2009, the line of credit was \$10,000,000.

As of November 30, 2009, the Fund did not have outstanding borrowings. For the six months ended November 30, 2009, the Fund had average borrowings of \$12,576,923 over a period of 13 days at a weighted average interest rate of 1.42%. Interest accrued on the borrowings during the six months ended November 30, 2009 was \$3,919 and is shown as part of custodian and bank service fees on the Statement of Operations.

4. Transactions with Affiliates

INVESTMENT ADVISORY AGREEMENT

The Fund's investments are managed by Water Island Capital, LLC (the "Adviser") under the terms of an Investment Advisory Agreement. Under the Investment Advisory Agreement, as amended and restated on October 1, 2007, the Fund pays the Adviser an annual fee, which is computed and accrued daily and paid monthly, of 1.25% on the first

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

\$250 million, 1.20% on the next \$50 million, 1.15% on the next \$50 million, 1.10% on the next \$75 million, 1.05% on the next \$75 million and 1.00% for amounts over \$500 million, based on the Fund's average daily net assets.

Effective October 1, 2009, the Adviser has contractually agreed, at least until August 31, 2015, to waive its advisory fee and/or reimburse the Fund's other expenses to the extent that total operating expenses (exclusive of interest, taxes, dividends on short positions, brokerage commissions and other costs incurred in connection with the purchase or sale of portfolio securities) exceed the annual rate of 1.69% of the Fund's average daily net assets attributable to Class R shares and 1.44% of the Fund's average daily net assets attributable to Class I shares. Prior to October 1, 2009, the Adviser had contractually agreed, at least until August 31, 2012, to waive its advisory fee and/or reimburse the Fund's other expenses to the extent that total operating expenses (exclusive of interest, taxes, dividends on short positions, brokerage commissions and other costs incurred in connection with the purchase or sale of portfolio securities) exceed the annual rate of 1.88% of the Fund's average daily net assets attributable to Class R shares and 1.63% of the Fund's average daily net assets attributable to Class I shares.

The Adviser is permitted to recapture fees waived or expenses reimbursed to the extent actual fees and expenses for a period are less than the expense limitation of each class, provided, however, that the Adviser shall only be entitled to recapture such amounts for a period of three years from the end of the fiscal year during which such amount was waived or reimbursed. The Adviser cannot recapture any expenses or fees it waived or reimbursed prior to October 1, 2009 under the prior Expense Waiver and Reimbursement Agreement. The Adviser can recapture any expenses or fees it has waived or reimbursed after October 1, 2009 within a three-year period subject to the applicable annual rate of 1.69% for Class R shares and 1.44% for Class I shares. As of November 30, 2009, the Adviser may in the future recapture from the Fund fees waived and expenses reimbursed totaling \$3,408 of which \$3,408 expires November 30, 2012.

Certain officers of the Trust are also officers of the Adviser. Effective October 1, 2004, the Vice President of the Trust also serves as Chief Compliance Officer ("CCO") of the Trust and of the Adviser. The Fund pays the Adviser 15% of the CCO's salary for providing CCO services.

ADMINISTRATION AGREEMENT

Under the terms of an Administration Agreement, SEI Investments Global Funds Services ("SEIGFS") supplies administrative and regulatory services to the Fund, supervises the preparation of tax returns, and coordinates the preparation of reports to shareholders and filings with the Securities and Exchange Commission and state securities authorities. For the performance of these administrative services including fund accounting services, SEIGFS receives a monthly fee at an annual rate of 0.10% of the Fund's average daily net

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

assets up to \$250 million; 0.095% of such assets on the next \$250 million; and 0.08% of such assets in excess of \$500 million, subject to a minimum annual fee of \$200,000 for the period beginning September 1, 2008 and ending August 31, 2009. The minimum annual fee increases to \$225,000 for the period beginning September 1, 2009 and ending August 31, 2011, pursuant to the current Administration Agreement between SEIGFS and the Fund dated May 17, 2005, as amended July 25, 2008. Prior to September 1, 2008, SEIGFS received a monthly fee at an annual rate of 0.10% of the Fund's average daily net assets up to \$500 million; and 0.08% of such assets in excess of \$500 million, subject to a minimum fee of \$150,000 per year. For the six months ended November 30, 2009, SEIGFS was paid \$207,044 under the administration agreement. Certain officers of the Trust are also officers of SEIGFS. Such officers are paid no fees by the Trust for serving as officers of the Trust.

TRANSFER AGENT AND SHAREHOLDER SERVICES AGREEMENT

Under the terms of a Transfer Agent and Shareholder Services Agreement between the Trust and DST Systems, Inc. ("DST"), DST maintains the records of each shareholder's account, answers shareholders' inquiries concerning their accounts, processes purchases and redemptions of Fund shares, acts as dividend and distribution disbursing agent and performs other shareholder service functions. For these services, DST receives from the Fund a monthly complex minimum fee, including two cusips, at an annual rate of \$50,000 per year. For each cusip thereafter, an additional fee is applied at a minimum fee of \$17,500 per cusip per year.

DISTRIBUTION AGREEMENT

The Fund has adopted a plan of distribution pursuant to Rule 12b-1 under the 1940 Act (the "Plan") for Class R shares, which permits Class R to pay for expenses incurred in the distribution and promotion of Class R shares. Under the Plan, Class R may pay compensation to any broker-dealer with whom the distributor or the Fund, on behalf of Class R shares, has entered into a contract to distribute Class R shares, or to any other qualified financial services firm, for distribution and/or shareholder-related services with respect to shares held or purchased by their respective customers in connection with the purchase of shares attributable to their efforts. The amount of payments under the Plan in any year shall not exceed 0.25% annually of the average daily net assets allocable to Class R shares. During the six months ended November 30, 2009, the Fund paid Class R distribution expenses of \$340,424 pursuant to the Plan.

Under the terms of a Distribution Agreement between the Trust and SEI Investments Distribution, Co. (the "Distributor"), the Distributor serves as principal underwriter and national distributor for the shares of the Fund. The Fund's shares are sold on a no-load basis and, therefore, the Distributor receives no sales commissions or sales loads for providing services to the Fund. The Distributor is an affiliate of SEI Investments Global Funds Services.

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

5. Capital Share Transactions

Proceeds and payments on capital shares as shown in the Statement of Changes in Net Assets are the result of the following capital share transactions for the periods shown:

	Six Months Ended November 30, 2009 (Unaudited)	Year Ended May 31, 2009
CLASS R		
Shares sold	14,927,903	14,891,867
Shares issued in reinvestment of distributions	—	425,130
Shares redeemed	(6,225,356)	(6,436,124)
Net increase in shares outstanding	8,702,547	8,880,873
Shares outstanding at beginning of period	17,642,862	8,761,989
Shares outstanding at end of period	<u>26,345,409</u>	<u>17,642,862</u>
CLASS I		
Shares sold	12,564,165	5,669,231
Shares issued in reinvestment of distributions	—	246,467
Shares redeemed	(1,638,885)	(3,602,609)
Net increase in shares outstanding	10,925,280	2,313,089
Shares outstanding at beginning of period	8,630,935	6,317,846
Shares outstanding at end of period	<u>19,556,215</u>	<u>8,630,935</u>

6. Foreign Currency Translation

Amounts denominated in or expected to settle in foreign currencies are translated to U.S. dollars based on exchange rates on the following basis:

A. The market values of investment securities and other assets and liabilities are translated at the closing rate of exchange each day.

B. Purchases and sales of investment securities and income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

C. The Fund does not isolate that portion of the results of operations caused by changes in foreign exchange rates on investments from those caused by changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses on investments.

Reported net realized foreign exchange gains or losses arise from 1) purchases and sales of foreign currencies, 2) currency gains or losses realized between the trade and settlement dates on securities transactions and 3) the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Reported net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities, other than investment securities, resulting from changes in exchange rates.

7. Contingencies and Commitments

The Fund indemnifies the Trust's officers and trustees for certain liabilities that might arise from their performance of their duties to the Fund. Additionally, in the normal course of business the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

8. Securities Lending

In order to generate additional income, the Fund may, from time to time, lend its portfolio securities to broker-dealers, banks or institutional borrowers of securities. The Fund must receive 100% collateral in the form of cash or U.S. government securities. This collateral must be valued daily and, should the market value of the loaned securities increase, the borrower must furnish additional collateral to the Fund. During the time portfolio securities are on loan, the borrower pays the Fund any dividends or interest paid on such securities. Loans are subject to termination by the Fund or the borrower at any time. While the Fund does not have the right to vote securities on loan, it has the right to terminate the loan and regain the right to vote if that is considered important with respect to the investment. In the event the borrower defaults in its obligation to the Fund, the Fund bears the risk of delay in the recovery of its portfolio securities and the risk of loss of rights in the collateral. The Fund will only enter into loan arrangements with broker-dealers, banks or other institutions which the Adviser has determined are creditworthy under guidelines established by the Trustees. There were no securities on loan as of November 30, 2009.

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

9. Derivative Contracts

Written Options — A summary of put and call option contracts written during the six months ended November 30, 2009 is as follows:

	Option Contracts	Option Premiums
Options outstanding at beginning of period	115,749	\$ 6,347,326
Options written	386,692	35,599,099
Options canceled in a closing purchase transaction	(36,688)	(2,962,264)
Options exercised	(222,072)	(23,658,471)
Options expired	(170,228)	(9,546,862)
Options outstanding at end of period	<u>73,453</u>	<u>\$ 5,778,828</u>

Forward Currency Exchange Contracts — As of November 30, 2009, the Fund had forward currency exchange contracts outstanding as follows:

Settlement Date	Currency to Deliver	Currency to Receive	Unrealized Appreciation (Depreciation)
12/10/09	AUD 45,296,619	USD 39,362,498	\$ (2,051,665)
12/10/09	CAD 37,154,373	USD 34,916,828	(328,427)
12/10/09	EUR 13,401,029	USD 19,821,751	(296,491)
12/10/09	GBP 10,476,350	USD 17,301,413	110,535
12/10/09	NOK 119,320,000	USD 21,018,600	13,587
12/10/09	USD 29,315,059	AUD 32,625,000	513,593
12/10/09	USD 19,082,769	CAD 20,098,534	(16,966)
12/10/09	USD 5,088,952	EUR 3,466,029	114,410
12/10/09	USD 5,582,593	GBP 3,476,350	121,828
12/10/09	USD 6,133,956	NOK 34,500,000	(60,600)
.....			<u>\$ (1,880,196)</u>

AUD — Australian Dollar
CAD — Canadian Dollar
EUR — Euro

GBP — British Pound
NOK — Norwegian Krone
USD — United States Dollar

THE ARBITRAGE FUND

Notes to the Financial Statements (Continued)

November 30, 2009 (Unaudited)

Fair Value of Derivative Instruments — The fair value of derivative instruments as of November 30, 2009, was as follows:

Derivatives Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Forward currency contracts	Unrealized appreciation on forward currency exchange contracts	\$1,526,321	Unrealized depreciation on forward currency exchange contracts	\$(3,406,517)
Equity swap contracts	Unrealized appreciation on equity swap contracts	263,525	Unrealized depreciation on equity swap contracts	(1,028,945)
Equity option contracts	Investments, at value	<u>464,476</u>	Written options, at value	<u>(5,355,145)</u>
Total Derivatives Not Accounted for as Hedging Instruments		<u>\$2,254,322</u>		<u>\$(9,790,607)</u>

The effect of derivative instruments on the Statement of Operations for the six months ended November 30, 2009, was as follows:

Amount of Realized Gain (Loss) on Derivatives Recognized in Income:

Derivatives Not Accounted for as Hedging Instruments	Option Contracts	Forward Currency Exchange Contracts	Equity Swap Contracts	Total
Forward exchange contracts	\$ —	\$(9,614,130)	\$ —	\$(9,614,130)
Equity contracts	<u>7,496,977</u>	—	(144,826)	<u>7,352,151</u>
Total	<u>\$7,496,977</u>	<u>\$(9,614,130)</u>	<u>\$(144,826)</u>	<u>\$(2,261,979)</u>

Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income:

Derivatives Not Accounted for as Hedging Instruments	Option Contracts	Forward Currency Exchange Contracts	Equity Swap Contracts	Total
Forward exchange contracts	\$ —	\$ 3,863,190	\$ —	\$ 3,863,190
Equity contracts	<u>(1,370,173)</u>	—	(646,483)	<u>(2,016,656)</u>
Total	<u>\$(1,370,173)</u>	<u>\$ 3,863,190</u>	<u>\$(646,483)</u>	<u>\$ 1,846,534</u>

THE ARBITRAGE FUND
Notes to the Financial Statements (Continued)
November 30, 2009 (Unaudited)

10. New Accounting Pronouncements

The Fund has evaluated the need for additional disclosures and/or adjustments resulting from subsequent events through January 29, 2010, the date the financial statements were issued. Based on this evaluation, no additional disclosures or adjustments were required to the financial statements as of November 30, 2009.

THE ARBITRAGE FUND

Disclosure of Fund Expenses (Unaudited)

All mutual funds have operating expenses. As a shareholder of a mutual fund, your investment is affected by these ongoing costs, which include (among others) costs for portfolio management, administrative services, distribution (12b-1) expenses, and shareholder reports like this one. It is important for you to understand the impact of these costs on your investment returns.

Operating expenses such as these are deducted from a mutual fund's gross income and directly reduce its final investment return. These expenses are expressed as a percentage of a mutual fund's average net assets; this percentage is known as a mutual fund's expense ratio.

The following examples use the expense ratio and are intended to help you understand the ongoing costs (in dollars) of investing in your Fund and to compare these costs with those of other mutual funds. The examples are based on an investment of \$1,000 made at the beginning of the period shown and held for the entire period.

The table on the following page illustrates your Fund's costs in two ways.

- **Actual Fund Return.** This section helps you to estimate the actual expenses after fee waivers that your Fund incurred over the period. The "Expenses Paid During Period" column shows the actual dollar expense cost incurred by a \$1,000 investment in the Fund, and the "Ending Account Value" number is derived from deducting that expense cost from the Fund's gross investment return.

You can use this information, together with the actual amount you invested in the Fund, to estimate the expenses you paid over that period. Simply divide your actual account value by \$1,000 to arrive at a ratio (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply that ratio by the number shown for your Fund under "Expenses Paid During Period."

- **Hypothetical 5% Return.** This section helps you compare your Fund's costs with those of other mutual funds. It assumes that the Fund had an annual 5% return before expenses during the year, but that the expense ratio (Column 3) for the period is unchanged. This example is useful in making comparisons because the Securities and Exchange Commission requires all mutual funds to make this 5% calculation. You can assess your Fund's comparative cost by comparing the hypothetical result for your Fund in the "Expenses Paid During Period" column with those that appear in the same charts in the shareholder reports for other mutual funds.

Note: Because the return is set at 5% for comparison purposes — NOT your Fund's actual return — the account values shown may not apply to your specific investment.

THE ARBITRAGE FUND
Disclosure of Fund Expenses (Unaudited) (Continued)

	Beginning Account Value June 1, 2009	Ending Account Value November 30, 2009	Annualized Expense Ratios†	Expenses Paid During Period*
The Arbitrage Fund – Class R				
Based on Actual Fund Return	\$1,000.00	\$1,037.80	3.64%	\$18.59
Based on Hypothetical 5% Return (before expenses)	\$1,000.00	\$1,006.82	3.64%	\$18.31

The Arbitrage Fund – Class I				
Based on Actual Fund Return	\$1,000.00	\$1,038.90	3.39%	\$17.33
Based on Hypothetical 5% Return (before expenses)	\$1,000.00	\$1,008.07	3.39%	\$17.07

† The annualized expense ratios include dividend and interest rebate expense incurred during the six months ended November 30, 2009.

* Expenses are equal to the annualized expense ratios for the period, multiplied by the average account value over the period, multiplied by 183/365 (to reflect the one-half year period).

	Beginning Account Value June 1, 2009	Ending Account Value November 30, 2009	Annualized Expense Ratios†	Expenses Paid During Period*
The Arbitrage Fund – Class R				
Based on Actual Fund Return	\$1,000.00	\$1,037.80	1.74%	\$8.89
Based on Hypothetical 5% Return (before expenses)	\$1,000.00	\$1,016.34	1.74%	\$8.80

The Arbitrage Fund – Class I				
Based on Actual Fund Return	\$1,000.00	\$1,038.90	1.49%	\$7.62
Based on Hypothetical 5% Return (before expenses)	\$1,000.00	\$1,017.60	1.49%	\$7.54

† The annualized expense ratios exclude dividend and interest rebate expense incurred during the six months ended November 30, 2009.

* Expenses are equal to the annualized expense ratios for the period, multiplied by the average account value over the period, multiplied by 183/365 (to reflect the one-half year period).

THE ARBITRAGE FUND

Other Information (Unaudited)

A description of the policies and procedures that the Fund uses to vote proxies relating to portfolio securities is available without charge upon request by calling toll-free 1-800-295-4485, or on the Securities and Exchange Commission's ("SEC") website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge upon request by calling toll-free 1-800-295-4485, or on the SEC's website at <http://www.sec.gov>.

The Trust files a complete listing of portfolio holdings for the Fund with the SEC as of the first and third quarters of each fiscal year on Form N-Q. The filings are available upon request, by calling 1-800-295-4485. Furthermore, you may obtain a copy of the filing on the SEC's website at <http://www.sec.gov>. The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

NOTES

NOTES

NOTES



THE ARBITRAGE FUND

800-295-4485
www.thearbfund.com

Adviser **Water Island Capital, LLC**
41 Madison Avenue
28th Floor
New York, NY 10010

Distributor **SEI Investments Distribution Co.**
One Freedom Valley Drive
Oaks, PA 19456

Transfer Agent **DST Systems, Inc.**
P.O. Box 219842
Kansas City, MO 64121-9842

Custodian **State Street Bank and Trust Company**
225 Liberty Street
New York, NY 10281