

portfolio, as well as the concentration of the portfolio in any particular investment asset, strategy or market. Although Hudson Bay Capital attempts to mitigate risk in the Multi-Strat Funds by hedging at the position, strategy and/or portfolio level, such attempts may not be effective and hedging strategies themselves could add additional risks. Hudson Bay Capital generally does not attempt to hedge all market or other risks inherent in a Multi-Strat Fund's portfolio, and hedges certain risks, if at all, only partially.

General Risks

Investment and Trading Risks in General

All investments made by a Multi-Strat Fund risk the loss of capital. No guarantee or representation is made that a Multi-Strat Fund's program will be successful and investment results may vary substantially over time. The past performance of speculative trading strategies such as those implemented by the Multi-Strat Funds is not necessarily indicative of their future results.

Leverage Risk

The use of leverage is integral to many of the Multi-Strat Funds' strategies, and the Multi-Strat Funds depend on the availability of credit in order to finance its portfolio. The Multi-Strat Funds borrow funds from brokers, banks and other lenders; purchase securities on margin; and use various derivatives. The use of leverage creates risks of "credit squeezes" and the adverse effects of discretionary margin increases by dealers and counterparties and, in certain circumstances, can increase the losses to which a Multi-Strat Fund's portfolio may be subject.

Volatility Risk

The prices of instruments traded by the Multi-Strat Funds have been subject to periods of excessive volatility in the past, and such periods may recur. While volatility can create profit opportunities for the Multi-Strat Funds, it also can create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur losses. On the other hand, given the nature of many of the Multi-Strat Funds' strategies, the lack of volatility can also result in materially diminished prospects for profitability to the Multi-Strat Funds and even losses for certain of the Multi-Strat Funds' strategies that profit from price movements.

Risk of Stagnant Markets

Although volatility is one indication of market risk, certain of the Multi-Strat Funds' investment strategies rely for their profitability on market volatility contributing to the mispricings that the strategies are designed to identify. Option values increase in direct (although correlation to increases in market volatility, so that strategies that are "long volatility" typically are unprofitable in stagnant markets. In periods of trendless, stagnant markets and/or deflation, alternative investment strategies have materially diminished prospects for profitability.