

Funds' or third-party valuation models. Market disruptions may also force a Multi-Strat Fund to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies. Even if a Multi-Strat Fund's relative value investment strategies are successful, they may result in high portfolio turnover, and, consequently, high transaction costs.

A major component of relative value trading involves spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss may occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably and, due to the leveraged nature of the Multi-Strat Funds' trading, result in increased losses.

Changes in the shape of the yield curve can cause significant changes in the profitability of relative value strategies. In the event of an inversion of the yield curve, the reversal of the interest differential between investments of different maturities can make previously profitable hedging techniques unprofitable.

Market Neutral and Hedged Strategies

Although Hudson Bay Capital invests in positions that are intended to be market neutral, it may be unable to, or decide not to, hedge its positions, and, in such event, a Multi-Strat Fund might sustain a significant risk of loss as a result of changes in the price of unhedged positions. In addition, there is no guarantee that the returns of the Multi-Strat Fund will continue to have a low correlation or be non-correlated with market indices and the Multi-Strat Fund could experience significant losses.

The Multi-Strat Funds also may utilize financial instruments such as commodity interests, forward contracts and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of the Multi-Strat Funds' portfolio positions. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedge transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for the Multi-Strat Funds to enter into a hedging transaction at an acceptable price or at a price sufficient to protect the Multi-Strat Funds from the anticipated decline in value of the portfolio position.

Event-Driven Investing

Event-driven strategies focus on investing in positions whose profitability depends upon the result of some significant corporate event occurring. The consummation of mergers, exchange offers, cash tender offers or other similar transactions can be prevented or delayed by a variety of factors. If the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the security to be tendered or exchanged may, and likely will, decline sharply by an amount greater than the difference between the Multi-Strat Fund's purchase price and the anticipated