

the company. In addition, such investments could subject the Multi-Strat Fund to certain additional potential liabilities that may exceed the value of the Multi-Strat Fund's original investment therein.

### *Directional Trading*

Certain of the positions taken by the Multi-Strat Funds may be directional (*i.e.*, designed to profit from forecasting absolute price movements in a particular instrument) and certain of the relative value and event-driven investment strategies used by the Multi-Strat Funds may have inherently directional characteristics. Directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Often these price movements will be determined by unanticipated factors, and even if the determining factors are correctly identified, Hudson Bay Capital's analysis of those factors may prove inaccurate, in each case potentially leading to substantial losses. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

### Risks Related to Certain Instruments Traded

#### *Equity Securities*

The investment portfolio of the Multi-Strat Funds includes positions in common stocks, preferred stocks and convertible securities principally of U.S. issuers and non-U.S. issuers. The Multi-Strat Funds also invest in depositary receipts relating to non-U.S. securities. The equity securities held by the Multi-Strat Funds may be acquired pursuant to exchange trades, from dealers in over-the-counter transactions and pursuant to direct transactions. Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and other factors, influence the cost of equities; there can be no assurance that Hudson Bay Capital will be able to predict future price levels correctly.

#### *Debt Securities*

Debt securities in which the Multi-Strat Funds may invest may be subject to price volatility due to various factors, including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. Investments traded by the Multi-Strat Funds may pay fixed, variable or floating rates of interest, may include interest-only, principal-only or residual obligations and may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. In addition to the sensitivity of these instruments to overall interest-rate movements, there exists a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues.

In addition to "high investment grade" debt securities, the Multi-Strat Funds invest in "low investment grade" or "non-investment grade" debt securities, which are typically subject to greater market fluctuations and risks of loss both in respect of income and principal than