

provisions of the Exchange Act.

The Multi-Strat Funds' investments in unregistered (or restricted) securities of public companies (including instruments that are convertible or exercisable into unregistered (or restricted) securities of public companies) may be difficult to value accurately. In light of the foregoing, there is a risk that an investor who redeems all or part of its investment while the Multi-Strat Funds hold such investments will be paid an amount less than it would otherwise be paid if the actual value of such investments is higher than the value designated by the Multi-Strat Funds. Conversely, there is a risk that an investor who redeems all or part of its investment while the Multi-Strat Funds holds such investments will be paid an amount more than it would otherwise be paid if the actual value of such investments is lower than the value designated by the Multi-Strat Funds, to the detriment of the other investors.

The securities laws and regulations governing investing in investments obtained directly from public companies (such as PIPES) and hedging transactions related thereto are complex and difficult to implement and monitor. In many cases, there is no clear regulatory guidance on the interpretation and application of these laws and regulations. While Hudson Bay Capital and the Multi-Strat Funds consult with competent counsel on these issues, the nature of these laws and regulations are that they are subject to interpretation and re-interpretation, as well as application in manners unanticipated or expected, which could expose the Multi-Strat Funds, Hudson Bay Capital and their respective affiliates to liability with respect to such transactions.

#### *Derivative Securities*

Derivative instruments, or "derivatives," include instruments and contracts that are derived from and are valued in relation to one or more underlying assets, benchmarks or indices. A derivative is a product that allows an investor to hedge or speculate upon the price movements of a particular asset, financial benchmark or index that could be a fraction of the cost of acquiring, borrowing or selling short the underlying asset. The value of a derivative is linked to the price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset also may be applicable to derivatives trading. However, there are a number of additional risks associated with derivatives trading. Transactions in certain derivatives are subject to clearing through a U.S. clearinghouse while other derivatives are subject to risks of trading in the over-the-counter markets, and others are subject to non-U.S. regulatory regimes. Price movements of futures and options contracts and payments pursuant to derivative agreements are influenced by, among other things, the longevity of the contract, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and derivative agreements also depends upon the price of the assets that are underlying them. In addition, the Multi-Strat Funds' assets are also subject to the risk of the failure of any of the clearinghouses or counterparties.