

The Multi-Strat Funds may also buy credit default protection with respect to a referenced entity if, in the judgment of Hudson Bay Capital, there is a likelihood of credit deterioration. In such instance, the Multi-Strat Funds will pay a premium regardless of whether there is a credit event. As a buyer of credit default swaps, in circumstances in which the Multi-Strat Funds do not own the debt securities that are deliverable under a credit default swap, the Multi-Strat Funds are exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called “short squeeze.” While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. The creation of the International Swaps and Derivatives Association Credit Derivatives Determination Committee (the “Determination Committee”) is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determination Committee will not be able to reach a resolution or do so on a timely basis. In either of these cases, the Multi-Strat Funds would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, the Multi-Strat Funds incur leveraged exposure to the credit of the reference entity and are subject to many of the same risks they would incur if they were holding debt securities issued by the reference entity. However, the Multi-Strat Funds will not have any legal recourse against the reference entity and may not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer may have broad discretion to select which of the reference entity’s debt obligations to deliver to the Multi-Strat Funds following a credit event and may choose the obligations with the lowest market value in order to maximize the payment obligations of the Multi-Strat Funds.

In addition, credit default swaps generally trade on the basis of theoretical pricing and valuation models, which may not accurately value such swap positions when established or when subsequently traded or unwound under actual market conditions. The credit default market may become subject to increased regulation, which could increase costs or even prevent participation by the Multi-Strat Funds.

Risks Related to Certain Trading and Investing Techniques and Methodologies

Model Risk

Certain of the Multi-Strat Funds’ strategies may require the use of quantitative valuation models that Hudson Bay Capital has developed over time, as well as valuation models developed by third parties. As market dynamics shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without Hudson Bay Capital recognizing that fact before substantial losses are incurred. There can be no assurance that Hudson Bay Capital will be successful in continuing to develop and maintain effective quantitative models. Models are subject to limitations, including, but not limited to, those caused by incorrect or unrealistic assumptions, computer herding,