Leverage Risk

The use of leverage is integral to the Capital Structure Fund's strategy, and the Capital Structure Fund's performance depends on the availability of credit in order to finance its portfolio. The Capital Structure Fund borrows funds from brokers, banks and other lenders; purchases securities on margin; and uses various derivatives. There are no limitations on Hudson Bay Capital's ability to cause the Capital Structure Fund to use any form of leverage in its portfolio. The use of leverage will magnify the volatility of changes in the value of the Capital Structure Fund's portfolio and can, in certain circumstances, increase the losses to which the Capital Structure Fund's investment portfolio may be subject.

Volatility Risk

The prices of instruments traded by the Capital Structure Fund have been subject to periods of excessive volatility in the past, and such periods may recur. While volatility can create profit opportunities for the Capital Structure Fund, 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, the lack of volatility can also result in losses for certain of the Capital Structure Fund's strategies that profit from price movements.

Risk of Changing Market Conditions

While it is possible for the Capital Structure Fund's current and potential strategies to be profitable during both upward and downward market cycles, there are certain market conditions in which different strategies have a materially reduced likelihood of success. For example, a decline in the corporate issuance of equity-linked securities (*e.g.*, convertible bonds) or continued low volatility and tight credit spreads could materially reduce the Capital Structure Fund's profit potential.

Risk of Stagnant Markets

Although volatility is one indication of market risk, certain of the Capital Structure Fund's 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 non-linear) 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.

Liquidity Risk

Certain of the Capital Structure Fund's investment positions may be illiquid in the ordinary course of business, as well as experience periods of illiquidity despite generally being liquid. Lack of liquidity can make it economically unfeasible for the Capital Structure Fund to recognize profits on open positions or to close out open positions against which the market is moving and could also adversely affect the Capital Structure