

brokerage firms selected to act as custodians become insolvent, the Capital Structure Fund may lose all or a portion of the funds or securities held by those custodians.

#### *“Master-Feeder” Structure*

The Capital Structure Fund operates in a “master-feeder” structure. Currently, only the Capital Structure Feeder Fund will invest in the Capital Structure Master Fund. In the future, other feeder funds may be established that have different terms than those with respect to the Capital Structure Feeder Fund. The master-feeder fund structure—in particular the existence of multiple feeder funds investing in the same master fund—presents certain unique risks to investors. Smaller feeder funds investing in the master fund may be materially affected by the actions of larger feeder funds investing in the master fund. For example, if a larger feeder fund redeems from the master fund, the remaining feeder funds may experience higher *pro rata* operating expenses, thereby producing lower returns. The master fund may become less diverse due to a redemption by a larger feeder fund, resulting in increased portfolio risk. The master fund is a single entity and creditors of the master fund may enforce claims against all assets of the master fund.

#### Strategy Risks

##### *Relative Value Strategies*

The success of the Capital Structure Fund’s relative value trading is dependent on Hudson Bay Capital’s ability to exploit relative mispricings among interrelated instruments. Mispricings, even if correctly identified, may not converge within the time frame within which the Capital Structure Fund maintains its positions. The Capital Structure Fund’s relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of the Capital Structure Fund’s or third-party valuation models. Market disruptions may also force the Capital Structure 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 the Capital Structure 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 Capital Structure Fund’s 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.