

### *Convertible Arbitrage Strategies*

The success of the Capital Structure Fund's convertible arbitrage strategy depends upon Hudson Bay Capital's ability to identify convertible securities that appear incorrectly valued relative to their theoretical value, purchase (or sell short) such a convertible security and sell short (or purchase) the underlying security for which the convertible security can be exchanged to exploit price differentials. There can be no assurance that Hudson Bay Capital will be able to identify convertible arbitrage opportunities or that changes in price differentials will not cause losses. Borrowing and lending against such investments involves substantial risks. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks.

Risks that can affect the results of convertible arbitrage include, but are not limited to, the following: (i) in positions where the credit exposure is not hedged, deterioration in the perceived credit-worthiness of an issuer will likely result in losses; (ii) the valuation process involves the estimation of various variables, such as the volatility of the underlying stock and the issuer's dividend policy, which may realize substantially different values from Hudson Bay Capital's estimates; (iii) even if all inputs are estimated correctly, a convertible may take years to converge to theoretical value, and in the meantime may diverge further, causing losses; (iv) the market for convertibles is generally less liquid, with higher bid-ask spreads, than the market for equities, a phenomenon which is particularly exacerbated during times of stress; (v) the strategy is subject to all the risks involved in selling equities short, including the risk of increasing borrowing costs or buy-ins, either of which can cause substantial losses; and (vi) corporate actions, such as mergers, acquisitions, spin-offs, and special dividends, can have a significant effect on the returns of a given position, both positive and negative.

### *Market Neutral and Hedged Strategies*

Although Hudson Bay Capital may invest in positions that are intended to be market neutral, it may be unable to, or decide not to, hedge its positions, and, in such event, the Capital Structure Fund might sustain a significant risk of loss as a result of changes in the price of unhedged positions. In addition, there is no guarantee that the returns of the Capital Structure Fund will continue to have a low correlation or be non-correlated with market indices, and the Capital Structure Fund could experience significant losses.

The Capital Structure Fund also may utilize financial instruments such as commodity interests, forward contracts and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of the Capital Structure Fund's portfolio positions. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Such hedge transactions also limit the opportunity for gain if