

the value of the portfolio positions should increase. Moreover, it may not be possible for the Capital Structure Fund to enter into a hedging transaction at an acceptable price or at a price sufficient to protect the Capital Structure Fund from the anticipated decline in value of the portfolio position.

### *Directional Trading*

Certain of the positions taken by the Capital Structure Fund may be directional (*i.e.*, designed to profit from forecasting absolute price movements in a particular instrument) and certain of the relative value and event-driven investment strategies used by the Capital Structure Fund may have inherently directional characteristics. Directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Often these price movements will be determined by unanticipated factors, and even if the determining factors are correctly identified, Hudson Bay Capital's analysis of those factors may prove inaccurate, in each case potentially leading to substantial losses. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

### Risks Related to Certain Instruments Traded

#### *Equity Securities*

The investment portfolio of the Capital Structure Fund includes positions in common stocks, preferred stocks and convertible securities principally of U.S. issuers and non-U.S. issuers. The Capital Structure Fund also invests in depositary receipts relating to non-U.S. securities. The equity securities held by the Capital Structure Fund may be acquired pursuant to exchange trades, from dealers in over-the-counter transactions and pursuant to direct transactions. Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and other factors, influence the cost of equities; there can be no assurance that Hudson Bay Capital will be able to predict future price levels correctly.

#### *Debt Securities*

Debt securities in which the Capital Structure Fund may invest may be subject to price volatility due to various factors, including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market conditions. In addition to "high investment grade" debt securities, the Capital Structure Fund invests in "low investment grade" or "non-investment grade" debt securities, which are typically subject to greater market fluctuations and risks of loss both in respect of income and principal than lower yielding, investment grade securities. The prices of the "low investment grade" or "non-investment grade" debt securities acquired by the Capital Structure Fund are often influenced by many of the same unpredictable factors which affect equity prices.

Certain of Hudson Bay Capital's strategies invest in hybrid debt arrangements, which are