

because of the need to satisfy the Preferred Return. It is also possible that, in the context of an Appraisal Proceeding that is not resolved in the favor of the Corporate Value Fund, certain amounts relating to an Appraisal Proceeding that had previously been distributed to limited partners by the Corporate Value Fund may be required to be returned to the Corporate Value Fund by the limited partner, in whole or in part (without reduction for any related taxes or accrual of any interest thereon).

Inability of Hudson Bay Capital to Control Corporate Event Outcomes

Numerous investors may invest in the same Corporate Event, and such investors, including Other Accounts, may have materially different cost bases as well as return objectives in such investment than does the Corporate Value Fund. The “adjacency risk” of different investors in the same Corporate Event could materially impede Hudson Bay Capital achieving its objectives for the Corporate Value Fund. For example, different investors may differ on what they perceive to be a favorable outcome in an Appraisal Proceeding, which could impede the ability of the Corporate Value Fund to settle, as Acquirors typically are only interested in settling with all dissenting shareholders.

Acquisition Premiums

When an Acquiror merges with or purchases a Target, the Acquiror typically offers a substantial premium over the market value of the Target’s equity at the time the transaction is announced. This premium directly reduces the “spread” between the Transaction Price and Fair Value on which Hudson Bay Capital hopes to capitalize. In addition, a court or arbiter may take this premium into consideration in making a determination of the Fair Value to be awarded, which could result in a lesser amount being awarded (as a result, for example, if a court determines that the premium was based on certain considerations in addition to Fair Value).

Delay in Receipt of the Transaction Price

Unless the Prepayment Option Amount is paid (in Delaware Appraisal Proceedings) or a settlement of an Appraisal Proceeding is reached, no portion of the Transaction Price otherwise due to the Corporate Value Fund as a holder of the Target’s stock will be paid until the Appraisal Proceeding is finally resolved in court. While an Appraisal Proceeding award or settlement will often incorporate some interest rate adjustment, the outcomes of Appraisal Proceedings are unpredictable both as to amount and to timing, and the amount received by the Corporate Fund may not offset the present value and other costs involved in the Appraisal Proceeding.

Leverage Risk

Any leverage used by the Corporate Value Fund — with the consent of the Institutional Investor — will not only increase the risk exposure of the Corporate Value Fund to any given Investment but also result in substantial debt service costs. The use of leverage subjects the Corporate Value Fund to the risk of its lenders foreclosing on the Corporate Value Fund’s specific loan as well as to a general restriction of available credit. A number of funds have in the past incurred material, if not total, losses as a result of the