

unexpected inability to continue to finance leveraged positions. Even if the Corporate Value Fund does not use leverage to acquire an Investment, the Corporate Value Fund will need to have margin accounts in order to facilitate its hedging activities.

Hedging

The hedging transactions in which the Corporate Value Fund will engage may not be effective in mitigating the Corporate Value Fund's risks. Furthermore, Hudson Bay Capital may choose not to hedge certain risks (in whole or in part) or determine that doing so would be economically disadvantageous. Hedging transactions may, over time, result in a poorer overall performance of the Corporate Value Fund than if Hudson Bay Capital had not engaged in any hedging.

Hedging strategies are subject to both significant transaction costs, as well as to path-dependent outcomes depending upon when hedging positions are implemented, increased, reduced or liquidated and the correlation between such hedging positions and Corporate Event/Appraisal Proceeding (credit) risks that they are intended to hedge. The fact that the Corporate Value Fund hedges its exposure may be viewed unfavorably by a court or arbiter in the context of any determination of value to be awarded, potentially resulting in a lower amount. The Corporate Value Fund's portfolio will always be exposed to certain risks that are not or cannot be hedged.

Expedited Transactions

The opportunity for the Corporate Value Fund to participate in any given Corporate Event will typically be short-lived, and Hudson Bay Capital may be forced to make investment decisions on an expedited basis. The risk to the Corporate Value Fund of Hudson Bay Capital making expedited investment decisions is significant in the case of the Strategy because of the often precise and detailed analysis needed to determine whether the Transaction Price — which has, after all, been accepted by the Target's management — is meaningfully below Fair Value.

Once the Fund is committed to an Appraisal Proceeding, the Corporate Value Fund will hold an effectively completely illiquid position; it will be very difficult for the Corporate Value Fund to close out this position in order to limit losses, even if Hudson Bay Capital realizes that it has made an error in assessing the Fair Value of the Target possibly due (at least in part) to the expedited due diligence that Hudson Bay Capital was forced to conduct on the Corporate Event in question.

Purchase of Third-Party Appraisal Rights

The purchase of Third-Party Appraisal Rights involves a risk that the Corporate Value Fund itself may not be able to exercise such Rights, as it was not the owner of the Target's securities when the Corporate Event in question occurred. In such case, the Corporate Value Fund would incur a partial or complete loss on its investment in the Third-Party Appraisal Rights. For example, there is a risk that the third party who sells such Third-Party Appraisal Rights to the Corporate Value Fund may not in fact have the legal or contractual authority to do so, which could in turn impair or eliminate the