

and interest rate, credit default, total return and equity swaps. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may diverge unexpectedly, resulting in losses.

#### *Short Sales Risk*

Hudson Bay Capital will cause the Corporate Value Fund to engage in short selling. A short sale is effected by selling a security that the Corporate Value Fund does not own, or selling a security which the Corporate Value Fund owns but that it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the Corporate Value Fund must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Corporate Value Fund must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must (unless the Corporate Value Fund then owns or has the right to obtain, without payment, securities identical to those sold short) be collateralized by a deposit of cash or marketable securities with the lender. The Corporate Value Fund may be forced to close out a short position prematurely if a counterparty from which the Corporate Value Fund borrowed securities demands their return. In certain cases, short sellers have been held liable for losses incurred by other market participants.

#### Structural Risks

##### *Single Investor*

The Corporate Value Fund has been organized for the single Institutional Investor (as well as certain Hudson Bay Insiders) and not for multiple third-party investors. As a result, Hudson Bay Capital may be incentivized to make certain determinations differently than it otherwise would. For example, Hudson Bay Capital may be incentivized to declare a default in respect of non-payment of a capital call because certain Hudson Bay Insiders may benefit significantly from such default and the exercise of the related forfeiture provisions.

##### *Differential Access to Information*

Hudson Bay Capital will make Investments on behalf of the Corporate Value Fund in competition with other market participants who may have superior information and market intelligence as compared to Hudson Bay Capital. From time to time, the Corporate Value Fund may incur substantial losses caused by an informational disadvantage compared to certain other participants in the applicable Corporate Event and Appraisal Proceeding. The Acquirors in Corporate Events can be expected to have done extensive due diligence on the Target — substantially more than Hudson Bay