



HUDSON BAY CAPITAL

Part 2A of Form ADV: Firm Brochure

Hudson Bay Capital Management LP

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This brochure provides information about the qualifications and business practices of Hudson Bay Capital Management LP (“Hudson Bay”). If you have any questions about the contents of this brochure, please contact us at (212) 571-1244. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Registration with the SEC does not imply a certain level of skill or training.

Additional information about Hudson Bay Capital Management LP is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Material Changes

This brochure has been updated since the last brochure, dated September 2012, primarily to include a new fund, Hudson Bay IP Opportunities International Fund, Ltd.

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Item 4. Advisory Business

Hudson Bay Capital Management LP (“Hudson Bay”), a Delaware limited partnership, is an alternative asset management firm founded in 2005 by Sander Gerber. Mr. Gerber is Hudson Bay’s principal owner and the managing member of Hudson Bay’s general partner. Hudson Bay provides investment management services on a discretionary basis to privately offered investment vehicles (each, a “Fund” and collectively, the “Funds”), and from time to time may also provide investment management services to one or more separately managed accounts (each a “Managed Account” and collectively, the “Managed Accounts”). The Funds and the Managed Accounts are sometimes referred to collectively (each, a “Client” and collectively, the “Clients”).

As of December 31, 2012 Hudson Bay managed client assets with a net asset value of approximately \$1.38 billion, all on a discretionary basis.

The Funds

Hudson Bay has full and exclusive discretion over all investment and trading decisions made on behalf of Hudson Bay Fund LP, Hudson Bay International Fund Ltd., Hudson Bay IP Opportunities Fund LP and Hudson Bay IP Opportunities International Fund Ltd. (collectively, the “Funds”), and provides investment advice directly to the Funds according to each Fund’s particular investment objectives and not individually to the Fund’s shareholders or limited partners, as pertinent (referred to collectively herein as “investors”). Hudson Bay manages all of the Funds’ assets on a discretionary basis.

Hudson Bay Fund LP and Hudson Bay International Fund Ltd. (the “Multi-Strat Funds”)

Hudson Bay Fund LP (the “Onshore Multi-Strat Fund”) is a Delaware limited partnership operating principally for the benefit of taxable U.S. persons. Hudson Bay International Fund Ltd. (the “Offshore Multi-Strat Fund”) is an exempted company incorporated under the Companies Law of the Cayman Islands operating principally for the benefit of non-U.S. persons and certain tax-exempt U.S. persons. The Onshore and Offshore Multi-Strat Funds are referred to collectively in this document as the “Multi-Strat Funds.”

The Multi-Strat Funds are organized in a master-feeder structure, whereby the Onshore Multi-Strat Fund directly invests, and the Offshore Multi-Strat Fund indirectly invests (through an intermediary fund, Hudson Bay Intermediate Fund Ltd.) most of their assets into Hudson Bay Master Fund Ltd. (the “Multi-Strat Master Fund”). Although investing and trading generally occurs primarily at the Multi-Strat Master Fund level, from time to time investing and trading may also occur in the Onshore and/or Offshore Multi-Strat Funds or in Hudson Bay Intermediate Fund Ltd. Hudson Bay Capital Associates LLC (the “General Partner”) is the general partner of the Onshore Multi-Strat Fund.

The investment objective of the Multi-Strat Funds is to employ multiple strategies to achieve consistent positive returns with low correlations to the global markets and other alternative asset managers. The Multi-Strat Funds trade and invest in a wide array of investment and trading strategies, which generally fall into three categories: relative value, event-driven and directional. However, the strategies in which the Multi-Strat Funds invest are constantly evolving and new strategies may appear within the Funds’ portfolio with some regularity. Hudson Bay categorizes

its strategies into the following four groups in its reports to the Multi-Strat Funds' investors: (i) event-driven/merger arbitrage; (ii) volatility trading; (ii) convertibles; and (iv) credit. There are no material limitations on the instruments, markets or countries in which the Funds may invest or on the investment strategies which may be employed on behalf of the Funds.

Side Letters

The Multi-Strat Funds, and in certain cases Hudson Bay, have the discretion, to the extent permitted by applicable law, to waive or modify the application of, or grant special or more favorable rights with respect to, the terms or provisions applicable to investment in the Multi-Strat Funds. Such terms may relate to certain withdrawal rights, fees or portfolio information ("Favorable Rights"), or other matters. To effect such waivers or modifications or the grant of any special or more favorable rights, the Multi-Strat Funds may create additional classes of interests for certain investors that provide for these differing rights. Certain such waivers, modifications or grants of special or more favorable rights may also be effected through side letters.

Although certain investors may invest with different material terms, the Multi-Strat Funds and Hudson Bay generally will only offer such terms if they believe other investors will not be materially disadvantaged. The Multi-Strat Funds or Hudson Bay, as applicable, may create additional classes of interests and enter into side letters without notice to, or consent of, other investors. Favorable Rights granted to certain investors will be offered to all investors with an equal or greater investment in the Multi-Strat Funds; provided that (i) such terms or conditions were not offered based on an investor's special regulatory, tax or other particular status and (ii) an investor electing to accept such favorable terms or conditions also agrees to be bound by any conditions, restrictions, limitations or obligations imposed on an investor in connection with its investment in the Multi-Strat Funds.

Hudson Bay IP Opportunities Fund LP and Hudson Bay IP Opportunities International Fund Ltd. (the "IP Funds")

Hudson Bay IP Opportunities Fund LP (the "Onshore IP Fund") is a Delaware limited partnership. Hudson Bay IP Opportunities International Fund Ltd. (the "Offshore IP Fund") is an exempted company incorporated under the Companies Law of the Cayman Islands operating principally for the benefit of non-U.S. persons and certain tax-exempt U.S. persons. The Onshore and Offshore IP Funds are referred to collectively in this document as the "IP Funds." Interests in the IP Funds are offered to taxable U.S. persons, non-taxable U.S. persons and non-U.S. persons that are both "accredited investors" and "qualified clients."

The IP Funds are organized in a master-feeder structure, whereby the Onshore IP Fund directly invests, and the Offshore IP Fund indirectly invests (through an intermediary fund, Hudson Bay IP Opportunities Intermediate Fund Ltd., the "IP Intermediate Fund") most of their assets into Hudson Bay IP Opportunities Master Fund Ltd. (the "IP Master Fund"). Although investing and trading generally occurs primarily at the IP Master Fund level, from time to time investing and trading may also occur in the Onshore and/or Offshore IP Funds or in the IP Intermediate Fund. Hudson Bay Capital Associates LLC (previously defined as the "General Partner") is the general

partner of the IP Master Fund and the Onshore IP Fund and the managing shareholder of the IP Intermediate Fund.

The investment objective of the IP Funds, as carried out through the IP Master Fund, is to seek superior capital appreciation by identifying opportunities related to intellectual property rights and monetizing them by, among other things, exploiting the private and public market valuation differential. The principal intellectual property opportunities that the IP Funds may exploit include patent enforcement, activist investing, litigation finance, litigation events, challenging intellectual property rights, intellectual property collateral and intellectual property securitization. Aside from the involvement of intellectual property rights, the IP Funds do not focus on, nor is their trading limited to, any geographic area, industry sector, issuer credit rating or issuer market capitalization level. The IP Funds are not subject to any formal diversification requirements.

The Managed Accounts

Terms applicable to the Managed Accounts are subject to negotiation and may vary from those applicable to the Funds.

Currently, Hudson Bay manages an account for an institutional investor on a discretionary basis. This account is designed to be an “overflow capacity line” account whose assets fluctuate by design, which Hudson Bay generally utilizes when there are investments or trading opportunities that have capacity beyond the risk guidelines of the Funds. For those limited number of investments and trades, the current Managed Account will generally participate on a *pari passu* basis with the Multi-Strat Master Fund or one of the other Multi-Strat Funds. References in this brochure to the “Funds” may include reference to the Managed Accounts, as the context requires.

Item 5. Fees and Compensation

Hudson Bay typically charges investors in the Funds fees that are based upon a set percentage of assets under management and/or performance, as set forth below. These fees are deducted directly from the applicable Fund’s account. Detailed disclosure about the fees and other expenses applicable to an investment in the Funds is provided in the operative confidential private placement memorandum (“PPM”) and related documents for the applicable Fund. Those operative documents should be carefully reviewed prior to making an investment in the Funds.

The Funds

The Multi-Strat Funds

Management Fee

Investors in the Multi-Strat Funds are typically charged a fixed management fee equal to 2% per annum of the amount invested in a particular Multi-Strat Fund (the “Management Fee”). Such fee is typically paid quarterly in advance and is pro-rated for periods less than a full quarter.

Performance Fee

Investors in the Multi-Strat Funds are also typically charged an incentive fee or allocation equal to 20% per annum of the net profits allocable to the amount invested in a particular Multi-Strat Fund, subject to a modified loss carry forward provision (the “Performance Fee”). Under the modified loss carry forward provision, the Performance Fee will be reduced by half to 10% until 2.1 times the loss is recovered for such investment. For example, if an investment in a particular Multi-Strat Fund suffers a loss of \$100, the next \$210 of net profits will be subject to the reduced 10% Performance Fee. Additional net profits in excess of \$210 will be subject to the full 20% Performance Fee.

Hudson Bay reserves the right to reduce, waive or calculate differently the Management and Performance Fees with respect to any investor (and has done so on occasion), including, without limitation, investors that are affiliates or current or former Hudson Bay principals or employees, members of the immediate families of such persons and trusts or other entities for their benefit.

Other Types of Fees or Expenses

Multi-Strat Fund investors bear indirectly the fees and expenses charged to the Multi-Strat Funds. These fees and expenses vary, but typically include, without limitation, (i) investment-related expenses of the Multi-Strat Funds (*e.g.*, brokerage commissions, interest on margin accounts and other indebtedness, borrowing charges on securities sold short, custodial fees, clearing and settlement charges, interest expenses and investment-related travel and lodging expenses); (ii) research-related expenses, including, without limitation, news and quotation equipment and services; (iii) fees and expenses of the administrator and other third parties providing administrative, accounting, operations and valuation services; (iv) legal expenses; (v) professional fees and expenses (including, without limitation, fees and expenses of consultants and experts); (vi) fees of the investors' representative; (vii) systems and technology expenses (including, without limitation, investment-related systems and accounting, operations, risk and valuation systems to the extent that they support the investment-related systems and processes); (viii) accounting, auditing and tax preparation expenses; (ix) costs of printing and mailing reports and notices; (x) organizational expenses; (xi) expenses relating to obtaining insurance for members of the board of the Multi-Strat Master Fund and the Offshore Multi-Strat Fund (including those that are affiliated with Hudson Bay and the General Partner; (xii) Management Fees; (xiii) corporate licensing fees and other professional fees; (xiv) bank service fees; (xv) withholding and transfer fees; (xvi) entity-level taxes; (xvii) other expenses related to the purchase, sale or transmittal of Fund assets; (xviii) and extraordinary expenses and other similar expenses related to the Funds and certain other legal entities through which the Master Fund may invest.

In some cases, a Multi-Strat Fund may pay a money market fund or such other short-term investment vehicle an advisory fee on assets invested in the money market fund or short-term investment vehicle in addition to the fees paid to Hudson Bay and/or an affiliate.

Please also see “Item 12—Brokerage Practices” below.

The Multi-Strat Funds are authorized to enter into arrangements to invest with affiliates of Hudson Bay (including for this purpose, individuals or entities that provide their services exclusively to Hudson Bay or its affiliates or clients). In such case, any Management or Performance Fees payable to such affiliate will reduce the Management and/or Performance Fee payable to Hudson Bay, as applicable, provided that where such entity is owned in part by Hudson Bay and in part by an unaffiliated entity, such fees will be accounted for separately, such that the amount that is attributable to the unaffiliated entity will be treated as an expense of the Multi-Strat Fund and the amount that is attributable to Hudson Bay's affiliate will reduce, dollar-for-dollar, the Management and/or Performance Fee. If the Management or Performance Fees payable by the Multi-Strat Fund to the Hudson Bay affiliate would exceed the combined Management Fee and Performance Fee, the amounts payable to such affiliate will be reduced so that there is no excess.

The IP Funds

Investors in the IP Funds are not charged an asset-based management fee, and no management fee is charged at the IP Master Fund level.

Carried Interest

Cash available for distribution from any investment will be distributed by the IP Funds on at least a quarterly basis as follows, provided that no distributions will be required to be made until the end of the investment period (generally expected to terminate two years after the initial closing, subject to possible extension):

- First, 100% to the IP Fund investors, including the General Partner, in accordance with their percentage interests until all of the investors receive distributions equal to their capital contributions; and
- Second, any remaining balance, (i) 70% of distributable cash to the investors (including the General Partner as applicable) in accordance with their percentage interests, and (ii) 30% thereof to the General Partner. The distributions payable to the General Partner pursuant to this sub-clause (ii) are referred to as the "Carried Interest." The General Partner will not receive any Carried Interest distributions at the IP Master Fund level.

Hudson Bay may reduce, waive or calculate differently the Carried Interest with respect to any investor (and has done so on occasion) including, without limitation, investors that are affiliates, principals or current or former employees of Hudson Bay, the General Partner or their respective affiliates, as well as the members of the immediate families of such persons and trusts or other entities for their benefit.

Any ancillary fees earned by Hudson Bay or the General Partner or any of their personnel from Portfolio Companies (as defined below) or patents in which the IP Fund is invested (*e.g.*, directors' fees and consulting fees) will generally be offset against any future Carried Interest.

General Partner Clawback

After final distribution of the assets of the IP Funds among the investors, if the distributions received by the General Partner on account of its Carried Interest over the life of the IP Funds exceed 30% of the total distributions by the IP Fund (and/or the IP Intermediate Fund) in respect of such Interests over such period (excluding returns of capital), the General Partner will contribute to the IP Fund and/or the IP Intermediate Fund the amount of such excess (the “General Partner Clawback”). The IP Funds will then distribute any amounts received as a result of the General Partner Clawback to the other investors (including the General Partner) in accordance with their respective percentage interests or as otherwise appropriate.

In no event will the General Partner be required, as part of the General Partner Clawback, to contribute an amount in excess of the aggregate amount of its Carried Interest (net of income taxes paid), as determined under the Limited Partnership Agreement and/or Hudson Bay's discretion during the life of the IP Funds.

Other Types of Fees or Expenses

The IP Funds' investors bear indirectly the fees and expenses charged to the IP Funds. Generally, the IP Funds will be responsible for all expenses incurred by the General Partner and Hudson Bay in connection with activities related to the IP Funds, other than general overhead costs and employee salaries and benefits. The IP Funds will be responsible for the compensation and benefits of one or two internal legal counsel that are being utilized in connection with patent claims and related matters.

The IP Funds and the Operating Subsidiaries (as defined below) will incur, on an ongoing basis, significant operating expenses in the course of selecting patents and making, negotiating and/or structuring investments. These fees and expenses vary, but typically include, without limitation, (i) investment-related expenses (*e.g.*, finder's fees, brokerage commissions, interest on indebtedness, due diligence and investment-related travel and overhead expenses of the Operating Subsidiaries); (ii) research-related expenses, including, without limitation, news and quotation equipment and services; (iii) fees and expenses of legal counsel and others evaluating patents and other investments (including related travel, dining and lodging expenses and the expenses of consultants engaged by such persons); (iv) fees and expenses of third parties providing administrative, accounting, operations and valuation services; (v) fees and expenses (including travel, dining and lodging expenses) of technical and other consultants engaged by the Investment Manager; (vi) fees and expenses (including travel, dining and lodging expenses) of counsel to Hudson Bay engaged to negotiate the terms of an investment; (vii) other legal expenses, including litigation expenses related to patent claims and the compensation and benefits of up to two counsel employed by Hudson Bay or its affiliates; (viii) other professional fees and expenses; (ix) systems and technology expenses (including, without limitation, investment-related systems and accounting, operations, risk and valuation systems to the extent that they support the investment-related systems and processes); (x) accounting, auditing and tax preparation expenses; (xi) insurance premiums (including for directors and officers insurance coverage); (xii) cost of printing and mailing reports and notices; (xiii) organizational expenses for the Funds and Operating Subsidiaries; (xiv) costs of participation in public companies purchasing patent rights; (xv) corporate licensing fees; (xvi) bank service fees; (xvii) withholding

and transfer taxes; (xviii) entity-level taxes; (xix) other expenses related to the purchase, sale or transmittal of the IP Funds' assets; and (xx) extraordinary expenses and other similar expenses related to the IP Funds and the Operating Subsidiaries.

In some cases, the IP Funds may pay a money market fund or such other short-term investment vehicle an advisory fee on assets invested in the money market fund or short-term investment vehicle in addition to the fees paid to Hudson Bay and/or an affiliate.

The Managed Accounts

In certain situations (such as where the investor handles administration of the account) the Managed Accounts may not be charged a management fee, or may be charged a lower management fee from those charged to the Multi-Strat Funds. The Managed Accounts will, however, be subject to payment of a performance-based fee.

Item 6. Performance-Based Fees and Side-by-Side Management

As stated in “Item 5 – Fees and Compensation” above, generally all Hudson Bay Clients are subject to payment of a performance-based fee. As a result, Hudson Bay does not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not others. However, to the extent performance-based fees paid by Clients vary (as in the case of the Multi-Strat Funds and the IP Funds), Hudson Bay may have an incentive to favor one Client over another. Hudson Bay addresses this possible conflict through its trade allocation policy, in which investment opportunities are allocated among Clients according to each Client’s investment objectives and in a fair and equitable manner.

Item 7. Types of Clients

As described in “Item 4 – Advisory Business” above, Hudson Bay provides investment advice to private investment vehicles (defined previously as the “Funds”). Each of the Funds is excluded from the definition of “investment company” pursuant to Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act of 1940, as amended. Hudson Bay provides investment advice directly to the Funds and not individually to the Fund investors. The Fund investors generally consist of institutions (*e.g.*, pension plans, endowments, trusts, estates, charitable organizations, foundations, insurance companies, banks, etc.), “funds of funds” and high net worth families and individuals.

Currently, Hudson Bay also provides investment advice to one Managed Account for an institutional investor.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

The Multi-Strat Funds

Methods of Analysis, Investment Strategies and Risk of Loss

Hudson Bay's investment objective on behalf of the Multi-Strat Funds is to target traditional and non-traditional sources of alpha by employing a diverse set of catalyst-driven absolute return strategies that are intended to be uncorrelated to each other and to the major indices. The Multi-Strat Funds expect to hold both long and short positions in a broad range of debt and equity securities, derivatives and other financial instruments on a global basis. There are no material limitations on the instruments, markets or countries in which the Multi-Strat Funds may invest or on the investment strategies which may be employed on behalf of the Multi-Strat Funds. The Multi-Strat Funds do not focus on, nor is their trading limited to, any geographic area, industry section, issuer credit rating or issuer market capitalization level. The Funds are not subject to any formal diversification requirements, and a Multi-Strat Fund's portfolio may, from time to time, be concentrated in a limited number of positions or strategies.

The Multi-Strat Funds may trade derivatives (including commodity and credit-related derivatives trading) both for hedging and for investment purposes.

Occasionally, a Multi-Strat Fund may invest in illiquid positions that Hudson Bay believes will not become freely tradeable for over a year. The aggregate net asset value (as defined below) of such investments generally will not comprise more than 5% of the net asset value of the Multi-Strat Master Fund (measured at the time such investment is made). Privately issued securities that are convertible or exercisable into securities that are freely tradeable or are expected to become freely tradeable within a year generally would not fall within this category of investments. If Hudson Bay believes that illiquid opportunities warrant investing in excess of the 5% limitation, it will approach all Multi-Strat Fund investors with a proposal to exceed such amount. Consenting investors will share in these opportunities on a *pro rata* basis.

In view of the fact that the Multi-Strat Funds' investment program includes trading as well as investments, short-term market considerations will frequently be involved, and the turnover rate of the Multi-Strat Funds' portfolios is expected to be substantially greater than the turnover rates of other types of investment vehicles. Frequent trading may affect investment performance, particularly through increased brokerage commissions and other transaction fees and expenses.

Hudson Bay is continually developing new, and adapting and refining existing, trading and investment strategies. Hudson Bay's strategies generally fall into three categories: relative value, event-driven and directional. There are no clear dividing lines among these categories, and any strategy employed by the Multi-Strat Funds may be cross-categorized to the extent that its guiding logic is multidisciplinary.

Relative Value Strategies

Relative value strategies seek to profit from the relative mispricing of related assets: *e.g.*, convertible bonds and the underlying common stock, other options and futures and their underlying reference assets, debt instruments of the same issuer or of different issuers with

different maturities or yields and the common stock of different issuers in the same industry sector. These strategies may be highly quantitative and based on theoretical or historical pricing relationships. Because they focus on capturing the value from the relative mispricing of related assets, relative value strategies can generate returns independent of overall movements in the global level of debt or equity prices, although many of these strategies in fact are constructed with a long or short equity or debt bias. Because the mispricings that these strategies exploit tend to be small in absolute terms, these strategies frequently use leverage, which could be substantial, in an attempt to increase returns. Relative value strategies typically do not hedge all the risks of the strategy, and certain risks cannot be effectively hedged.

Event-Driven Strategies

Event-driven strategies concentrate on the profit potential created by major corporate events: *e.g.*, mergers, acquisitions, restructurings, bankruptcies, liquidations, regulatory or legal developments and other events. Unlike relative value strategies, which emphasize the quantitative relationship among different but related assets, event-driven strategies are highly issuer- and transaction-specific and could rely more on fundamental research and judgment than on mathematical precision. Positions are taken which will be profitable if a particular event comes to pass, while a variety of techniques are used to mitigate the risk that the event does not occur. Event-driven strategies are dependent on market conditions conducive to major corporate events.

Directional Strategies

Directional strategies attempt to predict near to mid-term absolute movements in the prices of equities, debt instruments or other assets. Price forecasting may be based on the fundamental analysis of an issuer or industry, specific expertise in a particular technological or scientific niche, quantitative analysis of value indicators, econometric models in which issuers are treated as fungible, or other fundamental or technical analysis appropriate to a particular situation. Although diverse in their methods, these strategies each attempt to predict future prices based not on relative mispricing or on the occurrence of a particular event that will itself define value, but rather on the belief that the market will come to realize the “fair” value of an asset. Such investments may be concentrated in specific industry sectors and may include short- or long-term investments, as well as investments in investment grade or distressed debt or equity.

Although certain directional strategies (for example, buying growth equities) are largely dependent on overall market movements, others attempt to reduce the impact of the market conditions by establishing both long and short positions. While such “beta neutral” or “beta reduced” strategies may, to a certain extent, be characterized as relative value strategies, the hallmark of these strategies is the identification of assets that Hudson Bay believes the market will revalue and the elimination through hedging of the factors that may cause the market not to do so.

As of the date of this Brochure, Hudson Bay categorizes its Multi-Strat Fund strategies into the following four groups in its reports to investors: (i) event-driven/merger arbitrage; (ii) volatility trading; (iii) convertibles; and (iv) credit.

Certain of the specific trading techniques that have historically been used for the Multi-Strat Funds are outlined below for illustrative purposes. The following does not purport to be a complete list of all trading strategies employed, and certain of the Multi-Strat Funds' trades may involve a combination of, or a departure from, these strategies.

- *Event/Merger Arbitrage* – involves investing in securities of an issuer that is involved in prospective mergers or corporate combinations, acquisitions, tender offers, exchange offers, corporate recapitalizations, litigation or spin-offs or other corporate action transactions with the expectation of profiting from the difference between the price of such securities at the inception of the investment and the price of such securities in expectation of or upon consummation of particular events.
- *Derivative Arbitrage* – involves the purchase and sale of options, futures, warrants, swaps and other derivative securities in anticipation of profiting from a relative mispricing between them. These transactions may be offset in the underlying principal markets. Examples of such strategies are commonly known as index arbitrage and volatility arbitrage.
- *Options Arbitrage* – seeks to profit from market turbulence or lack thereof, as reflected in movements in option prices that result from either market volatility or market fluctuations. The goal of this strategy, also known as options-volatility trading, is to buy inexpensively priced (*i.e.*, low implied volatility) options whose underlying instruments are historically more volatile and sell expensively priced (*i.e.*, high implied volatility) options whose underlying instruments are historically less volatile.
- *Equity-volatility Arbitrage* – seeks to identify and exploit relative mispricings in general volatility levels, skew and term structures across global markets. Hudson Bay will evaluate volatility through the analysis of capital structure, event catalysts and the structured products market.
- *Convertible Arbitrage* – involves purchasing and selling convertible securities and may involve hedging the underlying equity and/or credit risk, in anticipation of profiting from a relative mispricing among them. This is intended to create a net position that is designed to be substantially neutral to the movements in the underlying equity and has an attractive yield.
- *Directly Negotiated Investments* – involves the purchasing and selling, through private placements or public offerings, of securities offered by companies that are publicly traded. Directly negotiated investments generally include private investments in public equity (“PIPEs”) as well as the following investments issued or offered by public companies: (i) convertible debt securities and preferred stock, with and without embedded put and call features; (ii) common stock issued at a discount or implied discount; (iii) warrants, purchased alone or issued in connection with non-convertible debt securities or any of the securities listed above, which warrants may or may not be publicly traded and in which the underlying security may be restricted or unrestricted; (iv) registered direct offerings; (v) confidentially marketed public offerings; and (vi) other structured investments in public companies. The Multi-Strat Funds are not

limited in the types of directly negotiated investments they may make and can also invest in, among other things, debt and equity of private companies.

- *Capital Structure Arbitrage* – involves the simultaneous long purchase and short sale of two different classes of securities of the same issuer in order to capitalize on relative mispricings among them.
- *Distressed Strategies* – involve purchases and sales of debt and equity securities and obligations of companies that Hudson Bay believes are: (i) likely to be defaulting on their obligations; (ii) entering bankruptcy; (iii) in bankruptcy; (iv) liquidating; (v) emerging from bankruptcy; (vi) restructuring; or (vii) otherwise in distress or emerging therefrom. The strategy involves the purchase of obligations of declining or low credit quality borrowers at a discount, with the expectation or hope that the company will either improve its performance without the need to enter into bankruptcy or insolvency proceedings, or that the company will seek the protection of bankruptcy and insolvency laws and that its previously outstanding debt obligations will be converted into obligations of or equity in a healthier, restructured company. Another form of distressed investing involves the purchase of participations on the secondary market in recently issued loans to, or securities issued by, industrial and other operating companies in the United States and abroad. Such loans may be used to refinance an issuer's debt (thereby avoiding bankruptcy), to fund company operations while in bankruptcy or upon emergence from bankruptcy (thereby allowing them to reorganize successfully through bankruptcy), or to fund operations of a company with limited access to traditional financing sources.
- *Relative Value Long/Short Equity* – involves taking a number of long and short positions in a particular equity market to create a portfolio that is designed to have a reduced, if any, net market exposure. Equities that are deemed relatively undervalued are purchased long and relatively overvalued equities are sold short. This strategy can benefit from relative value discrepancies with reduced stock market risk and may be driven by fundamental analysis of industry sectors.
- *Fundamental Long/Short Equity* – involves taking long positions in undervalued equity securities and short positions in overvalued equity securities. In this strategy, the Multi-Strat Funds often accept some equity market exposure seeking to profit from both security selection and thematic sector or market timing decisions.

Third-Party Ventures

In executing a Multi-Strat Fund's investment strategies, Hudson Bay may cause the Multi-Strat Fund to enter into joint venture or co-investment arrangements, participate in private pooled investment vehicles or invest capital in separately managed accounts with unaffiliated investment managers where Hudson Bay determines that such arrangements complement Hudson Bay's expertise and/or enhance the Fund's ability to access specific investment opportunities (collectively, "Third-Party Ventures"). When a Fund enters into a Third-Party Venture, the manager thereof may be paid fixed asset-based fees and/or performance-based fees.

This is in addition to the Management and Performance Fees received by Hudson Bay and/or an affiliate.

Longer-Term Investments

Generally, the instruments in which the Multi-Strat Funds invest are issued by publicly-traded companies, although from time to time, the Multi-Strat Funds purchase investments that are long-term in nature and/or less liquid than an investment in readily marketable securities (“Longer-Term Investments”). Such investments may be subject to regulatory limitations on resale, including extended holding period requirements, during which period the Multi-Strat Funds may be limited in their ability to liquidate such investments. The aggregate net asset value of Longer-Term Investments that Hudson Bay believes will become freely tradeable only after a year generally will not comprise more than 5% of the Net Asset Value of the Master Fund (measured at the time such investment is made).

Trading Vehicles

Although the Multi-Strat Master Fund implements its own investing and trading strategies directly, it also invests through a variety of other legal entities (“Trading Vehicles”), including one or more other funds managed by Hudson Bay or any of its affiliates. The Multi-Strat Funds may also invest directly or indirectly through such Trading Vehicles in certain circumstances.

Material Risks

Investing in securities involves risk of loss that Clients and Multi-Strat Fund investors should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Multi-Strat Funds’ investments. This summary does not attempt to describe all of the risks associated with an investment in a Multi-Strat Fund. Although no summary can fully describe all of the risks associated with such an investment, the pertinent PPM contains a more complete description of the risks associated with an investment in that Multi-Strat Fund.

Risk management is a key part of Hudson Bay’s investment process. Hudson Bay attempts to monitor the risk parameters of each Fund’s overall portfolio, as well as the concentration of the portfolio in any particular investment asset, strategy or market. Although Hudson Bay attempts to mitigate risk in the Multi-Strat Funds by hedging at the position, strategy and/or portfolio level, such attempts may not be effective and hedging strategies themselves could add additional risks. Hudson Bay generally does not attempt to hedge all market or other risks inherent in a Multi-Strat Fund’s portfolio.

General Risks

Leverage Risk

The use of leverage is integral to many of the Multi-Strat Funds’ strategies. The Multi-Strat Funds borrow funds from brokers, banks and other lenders; purchase securities on margin; and use various derivatives. The use of leverage creates risks of “credit squeezes” and the adverse

effects of discretionary margin increases by dealers and counterparties and, in certain circumstances, can increase the losses to which a Multi-Strat Fund's portfolio may be subject.

Volatility Risk

The prices of instruments traded by the Multi-Strat Funds may be subject to periods of excessive volatility. While volatility can create profit opportunities, it also can create the specific risk that historical or theoretical pricing relationships will be disrupted, causing what should otherwise be comparatively low risk positions to incur losses. On the other hand, the lack of volatility can also result in losses for certain of the Multi-Strat Funds' strategies that profit from price movements.

Risk of Stagnant Markets

Certain of the Multi-Strat Funds' strategies rely for their profitability on market volatility contributing to the mispricings that the strategies are designed to identify. Option values increase in direct correlation to increases in market volatility, so that strategies that are "long volatility" typically are unprofitable in stagnant markets. In periods of trendless, stagnant markets and/or deflation, alternative investment strategies have materially diminished prospects for profitability.

Liquidity Risk

Certain of the Multi-Strat Funds' investment positions may be illiquid in the ordinary course of business, as well as experience periods of illiquidity despite generally being liquid. Lack of liquidity can make it economically unfeasible for a Multi-Strat Fund to recognize profits on open positions or to close out open positions against which the market is moving and could also adversely affect the Fund's ability to rebalance its portfolios. Illiquidity can also disconnect market values from the historical pricing indicators used in Hudson Bay's investment analysis.

Strategy Risks

Multi-Strategy Approach

Hudson Bay implements a multi-strategy approach. The different strategies combined in a Multi-Strat Fund's portfolio may generate offsetting gains and losses resulting in substantial transaction costs, but no net profit.

Relative Value Strategies

The success of the Multi-Strat Funds' relative value trading is dependent on Hudson Bay's ability to exploit relative mispricings among interrelated instruments. Mispricings, even if correctly identified, may not converge within the time frame within which a Multi-Strat Fund maintains its positions. The Multi-Strat Funds' relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of Hudson Bay's or third-party valuation models. Market disruptions may also force a Multi-Strat Fund to close out one or more positions. Such

disruptions in the past have resulted in substantial losses for funds employing relative value strategies.

A major component of relative value trading involves spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss may occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably and, due to the leveraged nature of the Multi-Strat Funds' trading, result in increased losses.

Changes in the shape of the yield curve can cause significant changes in the profitability of relative value strategies. In the event of an inversion of the yield curve, the reversal of the interest differential between investments of different maturities can make previously profitable hedging techniques unprofitable.

Event-Driven Investing

Event-driven strategies focus on investing in positions whose profitability depends upon the result of some significant corporate event occurring. The consummation of mergers, exchange offers, cash tender offers or other similar transactions can be prevented or delayed by a variety of factors. If the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the security to be tendered or exchanged likely will decline sharply by an amount greater than the difference between the Fund's purchase price and the anticipated consideration to be paid. Where a security to be issued in a merger or exchange offer has been sold short in the expectation that the short position will be covered by delivery of such security when issued, failure of the merger or exchange offer to be consummated may cause the Fund to cover its short sale, with a resulting, and perhaps significant, loss.

If a Multi-Strat Fund purchases securities in anticipation of an acquisition attempt or reorganization which does not occur, the Multi-Strat Fund may sell the securities at a substantial loss. In addition, where securities are purchased in anticipation of an acquisition attempt or reorganization, substantial time may elapse between the Multi-Strat Fund's purchase of securities and the acquisition or reorganization. In such cases, a portion of the Multi-Strat Fund's funds would be committed during this period to the securities purchased, and the Fund would incur an interest expense on the funds it borrowed to purchase the securities.

The Multi-Strat Funds invest in "distressed securities" – debt and equity securities, including obligations of U.S. and non-U.S. entities which are experiencing significant financial or business difficulties. Investments in distressed securities involve a substantial degree of risk. A Multi-Strat Fund may lose a substantial portion or all of its investment in a distressed investment or may be required to accept cash or securities with a value less than the Fund's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such entities. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than in other markets.

The Multi-Strat Funds may invest in companies involved in or undergoing work-outs, liquidations, split-offs, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction will be unsuccessful, take considerable time or result in a distribution of cash or a new security with a value less than the purchase price to the Multi-Strat Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Multi-Strat Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a Multi-Strat Fund may invest, there is a potential risk of loss by the Multi-Strat Fund of its entire investment in such companies.

The Multi-Strat Funds may make investments in restructurings that involve companies that are experiencing or are expected to experience severe financial difficulties. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings. In such situations, the Fund's investment is subject to the risk that a bankruptcy filing may adversely and permanently impact the value of a company and that high administrative costs may impair the value of the company. In addition, such investments could subject the Fund to certain additional potential liabilities that may exceed the value of the Fund's original investment therein.

Directional Trading

Certain of the positions taken by the Multi-Strat Funds 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 Multi-Strat Funds 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'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 Trading and Investing Techniques

Model Risk

Certain of the Multi-Strat Funds' strategies require the use of quantitative models that Hudson Bay has developed over time, as well as valuation models developed by third parties. As market dynamics shift over time, a previously highly successful model often becomes outdated or inaccurate, perhaps without Hudson Bay recognizing that fact before substantial losses are incurred. There can be no assurance that Hudson Bay will be successful in continuing to develop and maintain effective quantitative models. Models are subject to limitations, including, but not limited to, those caused by incorrect or unrealistic assumptions, computer herding,

inapplicability of historical data, omission of key data, erroneous code, oversimplification and underpricing risk.

Short Sales Risk

The Funds' investment strategies require routine "short sales." A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Multi-Strat Fund of buying those securities to cover the short position. There can be no assurance that the Multi-Strat Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Hedging Risk

While a Multi-Strat Fund may enter into hedging transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market environments or against all types of risk, thereby incurring losses to the Multi-Strat Fund. In addition, such hedging transactions may result in a poorer overall performance for the Multi-Strat Fund than if it had not engaged in any such hedging transactions. Hedging strategies themselves are subject to both significant transaction costs, as well as to path-dependent outcomes determined upon when hedging positions are applied, increased, reduced or eliminated and the correlation between such hedging positions and the directional positions that they are intended to hedge.

Risk Related to Third-Party Ventures

When a Multi-Strat Fund invests in Third Party Ventures, the Multi-Strat Fund must rely on the performance of third parties, thereby increasing the risk of manager misconduct or bad judgment, as well as limiting Hudson Bay's control over, and knowledge of, the Multi-Strat Fund's overall portfolio. The Multi-Strat Fund may not be able to redeem shares from a Third-Party Venture even in situations where such Third-Party Venture is deviating from announced strategies or risk control policies or has otherwise been materially adversely affected. Furthermore, a Third-Party Venture may deviate significantly from its announced strategies and/or risk control policies without Hudson Bay's knowledge.

Emerging Markets Risk

The Multi-Strat Funds may invest in countries that are considered to be "emerging markets." These investments present unique risks, including, *e.g.*, government instability, political risk, expropriation risk, the potential inability to hedge market risk and other risks related to a developing legal and regulatory framework, limited disclosures and access to information from issuers and risks relating to the application of various laws and regulations.

The IP Funds

Methods of Analysis, Investment Strategies and Risk of Loss

Hudson Bay's investment objective on behalf of the IP Funds is to achieve superior capital appreciation by identifying opportunities related to intellectual property rights by, among other things, monetizing the difference between private and public market valuations of such intellectual property rights. These opportunities may involve intellectual property directly, such as investments in companies owning intellectual property, or indirectly, such as investments and trading strategies related to intellectual property rights. The principal opportunities that the IP Funds may exploit include patent enforcement, activist investing, litigation finance, litigation events, challenging intellectual property rights, intellectual property collateral, and intellectual property securitization.

The IP Funds expect to hold both long and short positions in a broad range of debt and equity securities of both publicly traded and private companies, derivatives and other financial instruments on a potentially global basis. Aside from the involvement of intellectual property rights, the IP Funds do not focus on, nor is their investment and trading limited to, any geographic area, industry sector, issuer credit rating or issuer market capitalization level. The IP Funds are not subject to any formal diversification requirements, and the IP Funds' portfolio, by design, will be concentrated in a limited number of investments.

The IP Funds intend to create or acquire subsidiary companies ("Operating Subsidiaries"), typically limited liability companies or corporations to be owned, in whole or part, by the IP Master Fund, on an investment by investment basis to implement its strategy of exploiting intellectual property. Operating Subsidiaries may generate revenues and related cash flows from the granting of intellectual property rights or sales of intellectual property. Operating Subsidiaries may assist intellectual property owners with the development of their intellectual property, the protection of their intellectual property from unauthorized use, the generation of licensing revenue and, if necessary, the enforcement against unauthorized users of their intellectual property. Operating Subsidiaries may seek co-investors, merge with, or be sold to, publicly traded companies, undertake an initial public offering, or undergo any other restructuring. The IP Funds also may invest in publicly-traded or private companies ("Portfolio Companies") holding intellectual property.

The following does not purport to be a complete list of all investment strategies employed, and certain of the IP Funds' investments may involve a combination of, or a departure from, these strategies. At different times, the IP Funds may employ certain, all or none of the following strategies and the IP Funds may also employ numerous other investment and trading techniques.

Patent Enforcement

The IP Funds' primary focus will be to realize returns on capital by exploiting or supporting enforcement of a patent or a group of related patents relating to an invention or series of related inventions.

The IP Funds may acquire, license or enforce patented technologies. The IP Funds may seek to enter into business agreements with owners of patented technologies that do not have expertise in

the areas of intellectual property licensing and enforcement, do not possess the in-house resources to devote to such activities or, for any number of business reasons, desire to more efficiently outsource their intellectual property licensing and enforcement activities. Hudson Bay will evaluate a number of patents identified by it or its affiliates or identified to Hudson Bay from a number of internal and external sources and will select certain patents that it believes may be investment opportunities for the IP Funds.

Hudson Bay will submit such patents for evaluation by one or more law firms and/or other technical experts that have expertise in intellectual property. If Hudson Bay, after taking into consideration any expert views it deems appropriate, concludes that the investment would be an appropriate candidate, Hudson Bay will attempt to negotiate with the patent owner to determine an appropriate investment structure.

The processes and procedures employed in connection with the evaluation of a specific patent portfolio for acquisition, licensing and enforcement are tailored and unique to each specific situation. Key components may include, *e.g.*:

- Utilizing in-house professionals, external specialists and technology consultants to conduct tailored patent acquisition and evaluation processes and procedures.
- Identifying emerging growth areas where patented technologies will play a vital role.
- Identifying patented technologies that have been or are anticipated to be widely adopted.
- Evaluating the strength of a patent portfolio, including consideration of the type and number of claims expected to be infringed.
- Identifying potential infringers, relevant industries, longevity of the patented technology, and a variety of other factors that may impact the magnitude and potential success of a licensing and enforcement program.

The IP Funds may execute patent licensing and intellectual property rights arrangements with users of its patented technologies through willing negotiations without the filing of patent infringement litigation, or through the negotiation of a patent license or settlement arrangement in connection with the filing of patent infringement litigation or other enforcement proceeding. The IP Funds may invest in a patent that may be enforced through one or more trials and/or may be subject to a post-grant review or other proceeding before the relevant patent office. The IP Funds may also sell patented technologies to third parties. All of these patent enforcement activities may be performed directly by the IP Funds or through an Operating Subsidiary.

Activist Investing

The IP Funds may invest in a publicly traded company for the purposes of acquiring or merging with a public vehicle in which to monetize the patents or other intellectual property. Activist strategies may involve, *e.g.*: nominating directors to constitute a minority or majority of the board of directors; making formal or informal proposals to the board or executive officers, such as for a sale of assets, recapitalization or other restructuring; commencing a tender offer or other

action to take the issuer private; conducting a proxy contest; or commencing a shareholder class action or other litigation.

Litigation Finance

The IP Funds may invest in new or ongoing litigations related to intellectual property rights, regardless of whether the IP Funds own an interest in the underlying intellectual property rights. Investments in litigations may correspond to attorneys' fees, expenses or any other cost related to the litigation.

Litigation Events

The IP Funds may make investments based on ongoing litigations related to intellectual property rights, regardless of whether the IP Funds own an interest in the underlying intellectual property rights. For example, the IP Funds may take an equity, equity linked or debt position in a party in a patent litigation in anticipation of a litigation event, such as claim construction, summary judgment, trial or settlement, without taking an ownership interest in the corresponding patent(s).

Challenging Intellectual Property Rights

The IP Funds may challenge intellectual property rights held by third parties. For example, the IP Funds may identify a successful product with inadequate patent protection, initiate the process of obtaining regulatory approval of a competing product and sell or license any resulting manufacturing rights to a third party. In some situations, the IP Funds may engage in litigation regarding the patent protection on such a product and/or enter into business agreements with the manufacturer of a patented product regarding such activity.

Intellectual Property Collateral

The IP Funds may obtain security interests in intellectual property rights. For example, the IP Funds may invest in a company and obtain a corresponding security interest in the company's intellectual property. The IP Funds also may obtain debt from third parties secured by the debtor's intellectual property. The IP Funds may use security interests in intellectual property for any legal purpose, including foreclosing on the intellectual property and selling the debt secured by the intellectual property.

Intellectual Property Securitization

The IP Funds may identify one or more intellectual property rights expected to generate stable future income and facilitate the securitization of the expected future income. For example, the IP Funds may sell security interests, such as bonds, based on expected future income from a portfolio of intellectual property rights.

Other Intellectual Property

The IP Funds may exploit opportunities related to non-patent intellectual property rights, such as trade secrets, copyrights and trademarks. For example, the IP Funds may invest in a company

with a trade secret claim against a third party, regardless of whether or not the company has a related patent.

Foreign Intellectual Property

The IP Funds may employ investment or trading strategies to exploit opportunities related to intellectual property rights in any country, including emerging markets, as well as intellectual property rights recognized by an international treaty.

Material Risks

Investing in securities involves risk of loss that investors in the IP Funds should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the IP Funds' investments. This summary does not attempt to describe all of the risks associated with an investment in the IP Funds. Although no summary can fully describe all of the risks associated with such an investment, the IP Fund PPMs contain a more complete description of the risks associated with an investment in the IP Funds.

General Risks

Investments in Intellectual Property

The IP Funds intend to invest almost exclusively in companies with significant patent and other intellectual property rights or directly in patent and other intellectual property rights. Patent rights have a limited term and therefore decline in value over time. Intellectual property rights are granted separately by different jurisdictions and may be denied by government agencies in important markets. Patents are subject to challenge by competitors on various grounds, including claims that the claimed discovery is not sufficiently distinct from “prior art” as to warrant patent protection. Intellectual property rights holders may themselves be subject to claims of infringement where their products incorporate other intellectual property.

Investing in Technology Companies

Investing in securities and other instruments of technology companies involves substantial risks, including, *e.g.*, rapidly changing technologies and products that may quickly become obsolete; cyclical patterns in information technology spending; the possibility of lawsuits related to technological patents; and volatility in the U.S. stock markets affecting the prices of technology company securities.

High Growth Industry Related Risks

The IP Funds may have significant investments in the securities of high growth companies (*e.g.*, technology, communications and healthcare). These securities may be very volatile. Such companies may face undeveloped or limited markets, have limited products and no proven profit-making history, operate at a loss or with substantial variations in operating results, have limited access to capital and/or be in the developmental stages of their businesses, or be otherwise adversely affected by extremely competitive markets.

Nature of Investment; Lack of Diversification

An investment in the IP Funds requires a long-term commitment, with no certainty of return. The investments made by the IP Funds will generally be illiquid, and there can be no assurance that the IP Funds will be able to earn returns on such investments in a timely manner. Since the IP Funds do not pursue a diversified investment strategy and make only a limited number of investments, poor performance by a few of the investments could severely affect total returns.

Liquidity Risk

The IP Funds will invest a substantial portion of their assets in securities that are not readily marketable or that are only thinly traded. The IP Funds may not be able to readily dispose of such investments and, in some cases, may be contractually prohibited from disposing of such securities for a period of time.

Strategy Risks

Shareholder Activism

The IP Funds may engage in proxy contests, takeover bids, shareholder class actions or other litigation, or other activity that may place the IP Funds in a high-profile position that is adverse to issuer management and/or other security holders. The IP Funds may obtain a controlling or other substantial position in a public or private company and become subject to regulatory proceedings or other litigation.

The IP Funds' ability to realize value from certain of their positions may depend upon the ability of Hudson Bay to influence the management of a Portfolio Company to take certain actions, including, *e.g.*, a recapitalization, restructuring, spin-off, sale of the business or change in management. If Hudson Bay is incorrect in its assessment of the impact such action will have on the value of the Portfolio Company, or if it is unsuccessful in persuading the Portfolio Company's management to take the desired action, the IP Funds may sustain a loss.

Litigation Risks

The IP Funds intend to bring litigation against third parties infringing the patent rights of Operating Subsidiaries and Portfolio Companies.

- *Uncertainties of Patent Litigation.* The results of patent litigation are inherently unpredictable. Numerous factors can influence the achievement of success, including the jury system; selection of the judge and forum; fact witnesses and expert witnesses; and the existence of invalidating prior art.
- *Unpredictability of Damage Awards.* Factors that influence the amount of recoverable damages can include whether alternatives to the infringing product exist in the market; whether the patent owner has sufficient capacity to make all of the infringing product sold by the accused infringer; and the royalty rates for licenses in the relevant field.

- *Invalidating Prior Art.* The IP Funds will attempt to evaluate the probability of success of the infringement litigation and expected recovery. However, even the most thorough investigation of the patent owner and possible invalidating prior art cannot be assured of uncovering all possible invalidating prior art.
- *Venue.* The IP Funds will attempt to identify favorable venues for patent litigation and invest accordingly. However, federal district courts are dynamic and the perceived advantages of a particular venue may decrease over time. A court also may transfer a patent litigation to a less favorable venue.
- *Defendant Insolvency.* The defendant that would be obligated to pay the settlement or award in a particular case might become bankrupt or insolvent. In such event, even if the case were settled in the plaintiff's favor, the IP Funds may fail to recover all or part of the expected recovery.
- *Champerty, Maintenance and Barratry.* The laws of certain states prohibit "champerty" and "maintenance" (*i.e.*, arrangements in which a person not a party to a lawsuit bargains to acquire a claim for the purpose of bringing a lawsuit or to aid in the prosecution or defense of a lawsuit to which he is not a party). These arrangements generally would be considered unenforceable. State laws also prohibit "barratry" (*i.e.*, stirring up groundless disputes and lawsuits). Hudson Bay believes that the IP Funds' investments will not involve these arrangements where the IP Funds will own the patent or a controlling interest in the patent holder, but there may be uncertainty in certain other cases.
- *Recent Legislation.* The federal government recently enacted legislation, referred to as the Leahy-Smith America Invents Act (the "AIA"), that impacts patent litigation. Among other changes, the AIA provides a different definition of prior art, provides new procedures for post-grant review of issued patents and expands the existing defense to infringement based on prior commercial use. The AIA generally increases the risks of patents and patent litigation and may impact the IP Funds' investments.
- *Risk of Future Legislation.* Patent reform legislation is typically proposed to the United States Congress each session, and the federal government may in the future enact legislation or enter into treaties that could have an adverse impact on patents and other intellectual property rights and the enforcement thereof.

Risk Related to Certain Trading and Investing Techniques

Exposure to Liabilities Due to Controlling Interests in Portfolio Companies

The IP Funds may have a control position with respect to some Portfolio Companies, which could impose additional risks of liability for, *e.g.*, environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

Risks Regarding Dispositions of Operating Companies or Portfolio Companies

In connection with the disposition of an investment in an Operating Company or a Portfolio Company, the IP Funds may be required to make representations and warranties about the company's business and financial affairs. The IP Funds also may be required to indemnify the purchasers of an investment to the extent that any of these representations and warranties turn out to be inaccurate or misleading. Liabilities incurred by the IP Funds in connection with the disposition of interests in Operating or Portfolio Companies may cause the IP Funds to recall distributions made to investors.

Risks Related to Third-Party Ventures

The IP Funds may co-invest with third parties through partnerships, joint ventures or other entities. In some cases the IP Funds may not have control over these investments and hence may have a limited ability to protect their interests. Associated risks include the possibility that a third-party partner may have financial difficulties resulting in a negative impact on the investment, have interests that are inconsistent with those of the IP Funds or be in a position to take action in a manner contrary to the IP Funds' investment objectives. In addition, the IP Funds may in certain circumstances be liable for the actions of their third-party partners.

Emerging Markets Risk

The IP Funds may invest in intellectual property derived from persons or companies that operate in countries considered to be "emerging markets." These investments present unique risks, including, *e.g.*, government instability, political risk, expropriation risk, the potential inability to hedge market risk and other risks related to a developing legal and regulatory framework, limited disclosure and access to information from issuers and risks relating to the application of various laws and regulations.

Item 9. Disciplinary Information

Hudson Bay has no legal or disciplinary events to report that, in its view, would be material to a Client's or prospective Client's evaluation of Hudson Bay's advisory business or the integrity of its management.

Item 10. Other Financial Industry Activities and Affiliations

Certain of Hudson Bay's officers, employees and/or their related persons invest directly in certain of the Funds, are not charged a management fee and/or incentive fee/allocation or may be subject to a reduced incentive fee/allocation.

As disclosed in the Funds' PPMs, Hudson Bay and its affiliates are not restricted from forming additional investment funds, entering into other investment advisory relationships, investing their personal funds, or engaging in other business activities, even though such activities may substantially track, correlate to, mimic or compete with the Funds.

Hudson Bay does not believe that it and its employees/management persons have any current relationships or arrangements with other financial services companies that are material to its

advisory business or to its clients or that pose material conflicts of interest. In order to prevent any potential conflicts from arising, Hudson Bay prohibits each of its employees and their related persons and entities from making or maintaining personal investments in entities with which such employee routinely causes the Clients to trade or co-invest. In addition, with certain limited exceptions relating primarily to volunteer activities, any Hudson Bay employee seeking to participate in any outside business activity must obtain the approval of Hudson Bay's Chief Compliance Officer in order to participate in such activity.

Hudson Bay Capital Associates LLC (as previously defined, the "General Partner") is the general partner of the Onshore Multi-Strat Fund, the Onshore IP Fund and the IP Master Fund. Any persons acting on behalf of the General Partner are subject to the supervision and control of Hudson Bay in connection with any investment advisory activities. In accordance with SEC guidance, the General Partner is registered as an investment adviser in reliance on the Form ADV filed by Hudson Bay.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

High ethical standards are essential for the success of Hudson Bay and to maintain the confidence of each Client. Hudson Bay is of the view that its long-term business interests are best served by adherence to the principle that Clients' interests come first. In recognition of Hudson Bay's fiduciary obligations to its Clients and Hudson Bay's desire to maintain its high ethical standards, Hudson Bay has adopted a Code of Ethics containing provisions designed to: (i) prevent improper personal trading by Hudson Bay personnel; (ii) prevent improper use of material, non-public information about securities recommendations made by Hudson Bay or securities holdings of Clients; (iii) identify conflicts of interest (including the establishment of policies concerning outside business interests and gifts and entertainment); (iv) provide a means to resolve any actual or potential conflict in favor of the Client; and (v) establish policies with respect to political contributions and compliance with the Foreign Corrupt Practices Act. The Code of Ethics requires compliance with applicable federal and state securities laws. The Code of Ethics will be provided to any Client or Fund investor or potential Client or Fund investor upon request.

Personal Trading

Hudson Bay's employees and principals are permitted to invest in their personal trading accounts, subject to certain restrictions, and may in certain circumstances invest in the same or related securities as Hudson Bay recommends to the Client accounts, although these circumstances will generally be very limited as set forth below. In order to reduce certain conflicts of interest that may arise between Client accounts and the personal trading activities of Hudson Bay personnel, Hudson Bay has adopted a personal trading policy (contained in the Code of Ethics). The personal trading policy, among other things, requires: (i) disclosure of all relevant securities accounts, holdings and transactions and (ii) preclearance of relevant securities transactions, prior to their execution, which is designed to prevent any possible conflicts of interest between Hudson Bay personnel and Hudson Bay's Clients and to prevent the misuse of

material, non-public information. The personal trading policy generally prohibits, with certain limited exceptions, Hudson Bay employees from trading in the same or related securities as those held by the Client accounts.

Principal Transactions and Cross Trades

Hudson Bay or an affiliate on occasion may engage in principal transactions with Clients. A principal transaction occurs when an investment adviser, acting for its own account (or the account of an affiliate) buys a security from, or sells a security to, a client's account. Hudson Bay will conduct all principal transactions according to the disclosure and client consent requirements of Section 206(3) of the Investment Advisers Act of 1940 (the "Advisers Act"). Hudson Bay must determine that any principal transaction is in the best interest of the participating Client.

Hudson Bay, to the extent permitted under applicable law, also may effect cross transactions in which Hudson Bay causes a transaction to be effected between a Client and another account advised by it or any of its affiliates (a "cross trade"). Cross trades, which may or may not constitute principal transactions, will be conducted in accordance with Hudson Bay's fiduciary responsibility to each participating Client, must be in the best interest of each participating Client and must be consistent with Hudson Bay's duty to seek best execution.

An investors' representative has been retained for the Multi-Strat Funds for purposes of considering whether to grant, and granting or withholding, Client (including, as pertinent, Fund investor) consent to certain transactions that may give rise to conflicts of interest.

Item 12. Brokerage Practices

Hudson Bay has complete authority over the selection of the brokerage firms used to execute and clear portfolio transactions on behalf of Clients and custody assets of Clients.

Best Execution

Transactions for Clients will be allocated to broker-dealers for execution taking into consideration factors such as price; transaction costs; ability to effect the transactions; a broker-dealer's facilities, reliability and financial responsibility; commitment of capital; access to company management; quality of research; effectiveness of sales coverage; access to deal flow; the provision or payment by the broker-dealer of the costs of research; and other factors that are deemed appropriate to consider under the circumstances. In selecting broker-dealers, Hudson Bay need not solicit competitive bids and has no obligation to seek the lowest available commission cost. Hudson Bay does not always negotiate "execution only" commission rates and may, in its sole discretion, determine that the amount of commissions charged by a broker-dealer which is greater than the amount another broker-dealer might charge is reasonable in relation to the value of the brokerage and products or services provided by such broker-dealer. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged to Clients by broker-dealers in the foregoing circumstances may be higher than those charged by other broker-dealers that may not offer such products or services. Subject to the considerations described above, the selection of a broker-dealer (including a prime broker) to execute transactions, provide financing and securities on loan, hold cash and short balances

and provide other services may be influenced by, among other things, the provision by the broker-dealer of the following: capital introduction, marketing assistance, and consulting with respect to technology, operations, equipment and office space. Hudson Bay may have an incentive to select a broker-dealer based on its interest in receiving these services rather than on Clients' interest in achieving most favorable execution. However, as noted above, Hudson Bay selects broker-dealers according to its fiduciary duty to seek best execution, taking into account all applicable considerations.

Soft Dollar Benefits

As a matter of policy, Hudson Bay does not enter into "soft dollar" arrangements, *i.e.*, arrangements under which Hudson Bay agrees to pay more than the lowest available commission for products or services provided by a broker-dealer. However, Hudson Bay may use certain broker-dealers that provide certain research or other products or services to all of their customers, including Hudson Bay, without being requested to do so. Hudson Bay may receive from such broker-dealers various research-related products or services, including access to the broker-dealers' research websites, research mailed to the broker-dealers' customers, attendance at industry and investor conferences (which may include management meetings and expert panel discussions), and access to management of securities issuers and industry experts. Hudson Bay will take advantage of the products or services provided rather than producing or paying for them from another provider. In these situations, Hudson Bay receives a benefit because it does not have to pay for the products or services, such as research. In addition, Hudson Bay may have an incentive to recommend broker-dealers based on benefits that it receives from broker-dealers, even in the absence of soft dollar arrangements, rather than the interests of the Funds in receiving the most favorable execution.

Allocation of Investment Opportunities and Orders

As a fiduciary, Hudson Bay must allocate investment opportunities among its Clients in a fair and equitable manner.

Hudson Bay may consider a number of factors in determining which investments to make on behalf of a Client, including, but not limited to, differences in risk tolerances, tax status and investment objectives. As a result, there may be differences among Clients in invested positions and securities held. However, Hudson Bay will not make any investment allocation decisions based upon account performance or applicable fee structures.

In situations where more than one Client invests in a common position, Hudson Bay will generally aggregate orders unless aggregation is not consistent with Hudson Bay's duty to obtain best execution and the terms of the investment guidelines and restrictions of each pertinent Client. Aggregation, or "bunching," describes a procedure whereby an adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. No Client will be favored over any other Client. Each Client that participates in an aggregated order will participate at the average price for all of Hudson Bay's transactions in that security on a given business day, with transaction costs shared *pro rata*. Brokerage commission rates are not reduced as a result of such aggregation. In some instances,

average pricing may result in higher or lower execution prices than otherwise obtainable by a single Client.

In situations where different Client accounts invest in a common position or when an aggregated order is only partially filled, Hudson Bay will allocate the investment opportunity or a partially filled order on a fair and equitable basis. In such a situation, orders will generally be allocated *pro rata* based on the size of the Client account. However, allocations may be made on a basis other than *pro rata* for a number of reasons, including, but not limited to, a Client's investment guidelines and restrictions, available cash, liquidity requirements, tax or legal reasons, to avoid odd lots, or in cases in which such an allocation would result in a *de minimis* allocation. Hudson Bay will document the reason why any orders appropriate for more than one Client were allocated on a basis other than *pro rata*.

Hudson Bay may in the future manage other funds that have investment programs that are similar to, or that have overlapping objectives with, those of the Multi-Strat Funds (collectively, the "Other Funds"). Upon the establishment of Other Funds, on a monthly basis, Hudson Bay generally intends that it will sell securities from the Multi-Strat Funds to the Other Funds, or vice versa, in order to rebalance their respective portfolios. Through rebalancing transactions, commonly held investments for which a particular portfolio manager of Hudson Bay is responsible will be held *pro rata* across the Multi-Strat Funds and the Other Funds based upon the gross asset value of the positions of such portfolio manager as set forth in the Multi-Strat Funds' and each Other Fund's books. Rebalancing trades generally will be executed by the Multi-Strat Funds and the Other Funds in accordance with the Multi-Strat Funds' valuation policy. Hudson Bay may determine not to rebalance a particular position if it deems such action to be in the best interests of the Multi-Strat Funds and the Other Funds.

Trading Errors

Hudson Bay implements trade reconciliation and confirmation procedures intended to prevent trade errors; however, on occasion Hudson Bay may experience errors with respect to trades made on behalf of its Clients. Hudson Bay (unless it otherwise determines) will treat all trading errors (including those which result in losses and those which result in gains) as for the account of the Client, unless they are the result of conduct by Hudson Bay which is inconsistent with the standard of care set forth in the pertinent partnership or investment management agreement. Currently, the governing provisions of the relevant Fund documents provide that trading errors will be treated as for the account of the Funds absent the fraud, bad faith, gross negligence or willful misconduct of Hudson Bay, its partners, affiliates, agents, officers or employees, unless such standard would be in violation of applicable law.

Item 13. Review of Accounts

Review of Accounts

Hudson Bay will review, as pertinent, each Client's portfolio holdings to determine that the investments held by each Client remain consistent with the pertinent offering documents and will generally review each Client's performance on an ongoing basis.

Reports to Clients

Multi-Strat Fund investors receive unaudited performance information at least quarterly and audited financial statements on an annual basis. A Multi-Strat Fund may offer certain investors additional information and reporting that other investors may not receive, and such information may affect an investor's decision to request a withdrawal from its capital account.

As soon as reasonably practicable after the end of each IP Fund's first three fiscal quarters of each year, IP Fund investors will receive a quarterly narrative management report. IP Fund investors also receive audited financial statements on an annual basis.

Managed Accounts will receive reports as agreed upon in the pertinent investment advisory or other agreement.

Item 14. Client Referrals and Other Compensation

Hudson Bay does not currently have any arrangements with third parties whereby such third parties are compensated for client referrals.

In the event Hudson Bay enters into compensation arrangements with third party solicitors for new advisory business, any such solicitation arrangements will comply with Rule 206(4)-3 under the Advisers Act.

Item 15. Custody

All Fund assets are held in custody by unaffiliated qualified custodians. However, Hudson Bay is deemed to have custody of the assets contained in the Fund portfolios, since a Hudson Bay affiliate serves as general partner of, or in a similar capacity for certain of the Funds, or because Hudson Bay has the ability to withdraw advisory fees directly from certain Fund accounts and/or to obtain possession of other Fund assets. Accordingly, Hudson Bay is subject to the relevant provisions of Rule 206(4)-2 of the Advisers Act. Fund investors do not receive account statements from the custodian; rather, the Funds are subject to an annual audit and the audited financial statements are distributed to each Fund investor, pursuant to Rule 206(4)-2(b)(4).

In the event Hudson Bay has custody of the assets of any Managed Account, Hudson Bay will arrange for the qualified custodian to send quarterly account statements directly to the Managed Account, pursuant to Rule 206(4)-2. The Managed Account holder should carefully review these statements. Any Managed Account holder that also receives account statements from Hudson Bay should compare those account statements with the account statements received from the qualified custodian.

Item 16. Investment Discretion

Hudson Bay provides discretionary investment advisory services to the Funds and/or one or more Managed Accounts. Hudson Bay may make investment decisions, without consultation with the Funds, the Fund investors, or the Managed Account holder regarding which securities are bought and sold for the Client account, the total amount of the securities to be bought and sold, the broker-dealers with which orders are placed for execution and the commission rates at which securities transactions are effected. Such discretionary authority is granted to Hudson Bay in the applicable limited partnership agreement or investment management agreement.

Item 17. Voting Client Securities

Hudson Bay has voting authority and responsibility with respect to securities held by the Funds and may in the future have voting authority with respect to securities held by other clients. Hudson Bay's proxy voting policy is overseen and implemented by a Proxy Voting Committee, consisting of the Chief Compliance Officer and the Chief Operating Officer and such other persons as may be appointed from time to time. In voting proxies, Hudson Bay is guided by general fiduciary principles and votes in the manner it believes is consistent with efforts to achieve a Client's stated investment objectives. Hudson Bay has appointed an unaffiliated third party proxy voting service to assist with the management of proxy voting. Hudson Bay retains the discretion to take no action with respect to a proposed vote if it determines that doing so is in the best interests of a Client (for example, where Hudson Bay determines that the cost of voting exceeds the expected benefit to the Client).

Hudson Bay follows procedures designed to identify conflicts or potential conflicts that could arise between its own interests and those of its Clients. If it is determined that any such conflict or potential conflict is not material, Hudson Bay may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest is material, one or more methods may be used to resolve the conflict, including directing the third party proxy voting service to recommend a vote with respect to the security, disclosing the conflict to the Client and obtaining its consent before voting or such other method as is deemed appropriate under the circumstances.

Although the best interests of each Client are to be evaluated on a case-by-case basis, as a general matter, Hudson Bay is of the view that voting proxies in accordance with the following general guidelines will usually be in the best interests of its Clients. Hudson Bay will generally vote:

- in favor of routine corporate housekeeping proposals, including, but not limited to, the selection or reappointment of auditors or increasing or reclassification of common stock;
- against proposals that make it more difficult to replace members of the issuer's board of directors or board of managers and proposals that introduce unequal voting rights;
- in favor of proposals by management or shareholders concerning various compensation and stock option plans that will act to make management and employee compensation more dependent on long-term stock price performance; and

- against proposals to move the company to another state less favorable to shareholders' interests, or to restructure classes of stock in such a way as to benefit one class of shareholders at the expense of another, such as dual classes of stock.

Clients and Fund investors may request a copy of Hudson Bay's proxy voting policy, as well as applicable proxy voting records, by contacting the Chief Compliance Officer at Hudson Bay.

Item 18. Financial Information

Hudson Bay is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its Clients, and Hudson Bay has not been the subject of a bankruptcy petition.