



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”) and its affiliates. 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 March 2014, primarily to reflect the opening of Hudson Bay Absolute Return Credit Opportunities Fund L.P., which is managed by Hudson Bay Capital Management LP's affiliate, Hudson Bay Credit Management LLC.

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Item 4. Advisory Business

Hudson Bay Capital Management LP (“Hudson Bay Capital”), a Delaware limited partnership, is an alternative asset management firm founded in 2005 by Sander Gerber. Mr. Gerber is Hudson Bay Capital’s principal owner and the managing member of Hudson Bay Capital’s general partner. Hudson Bay Capital is the sole member of its affiliate, Hudson Bay Credit Management LLC (“Hudson Bay Credit”). Hudson Bay Capital and Hudson Bay Credit (collectively, “Hudson Bay”) provide 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, although Hudson Bay does not currently provide management services to any managed account.

As of March 31, 2014 Hudson Bay managed client assets with a net asset value of approximately \$2.087 billion, all on a discretionary basis.

The Funds

Hudson Bay Capital 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. Hudson Bay Credit has full and exclusive discretion over all investment and trading decisions made on behalf of Hudson Bay Absolute Return Credit Opportunities Fund, LP and will have full and exclusive discretion over all such decisions made on behalf of Hudson Bay Absolute Return Credit Opportunities Fund, Ltd., once it is launched. Hudson Bay Fund LP, Hudson Bay International Fund Ltd., Hudson Bay IP Opportunities Fund LP, Hudson Bay IP Opportunities International Fund Ltd., Hudson Bay Absolute Return Credit Opportunities Fund, LP and Hudson Bay Absolute Return Credit Opportunities Fund, Ltd. are each referred to herein as a “Fund” and collectively, as the “Funds” or the “Clients.” Hudson Bay 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; (iii) 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 Capital, 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 Capital, 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 (other than current and former members and employees of Hudson Bay Capital, their family members and/or related entities) 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. Other rights and investment terms that do not constitute Favorable Rights may not be so offered.

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, but are not limited to, 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 IP Funds are no longer open to new investors.

Hudson Bay Absolute Return Credit Opportunities Fund, LP and Hudson Bay Absolute Return Credit Opportunities Fund, Ltd. (the “Credit Funds”)

Hudson Bay Absolute Return Credit Opportunities Fund, LP (the “Onshore Credit Fund”) is a Delaware limited partnership operating principally for the benefit of taxable U.S. persons. Hudson Bay Absolute Return Credit Opportunities International Fund, Ltd. (the “Offshore Credit Fund”), once launched, will be 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 Credit Funds are referred to collectively in this document as the “Credit Funds.”¹

The Credit Funds are organized in a master-feeder structure, whereby the Onshore Credit Fund directly invests, and the Offshore Credit Fund indirectly invests (through an intermediary fund, Hudson Bay Absolute Return Credit Opportunities Intermediate Fund, Ltd.) most of their assets into Hudson Bay Absolute Return Credit Opportunities Master Fund Ltd. (the “Credit Master Fund”). Although investing and trading generally occurs primarily at the Credit Master Fund

¹ As of the time of the filing of this Brochure, only the Onshore Credit Fund has outside investors. It is contemplated that the Offshore Credit Fund will have outside investors shortly. For purposes of this Brochure, it is assumed that the Offshore Credit Fund (and Hudson Bay Absolute Return Credit Opportunities Intermediate Fund, Ltd.) have been formed and funded and references to the Credit Funds include the Offshore Credit Fund (and/or Hudson Bay Absolute Return Credit Opportunities Intermediate Fund, Ltd.).

level, from time to time investing and trading may also occur in the Onshore and/or Offshore Credit Funds or in Hudson Bay Absolute Return Credit Opportunities Intermediate Fund, Ltd. Hudson Bay Credit Associates LLC (the “Onshore Credit Fund General Partner”) is the general partner of the Onshore Credit Fund. The Onshore Credit Fund General Partner’s sole member is the General Partner.

The investment objective of the Credit Funds is to generate sustainable, superior, risk-adjusted returns through all stages of a credit cycle by implementing a variety of investment strategies intended to capitalize on inefficiencies in the market for distressed securities. These strategies include priority debt, capital structure arbitrage, classical distressed, liquidations and other opportunistic investments. The Credit Funds will generally invest in securities and instruments issued by financially stressed and distressed companies, including, but not limited to, secured and unsecured loans, bonds at all levels of the capital structure, equities (preferred and common) and trade claims. The Credit Funds may also invest in options, warrants and other derivatives, as well as in financially stable, rather than stressed and distressed, issuers.

Side Letters; Differential Access to Information

Hudson Bay and the Credit Funds may enter into agreements on behalf of the Credit Funds and/or Hudson Bay whereby a particular investor is permitted to invest in the Credit Funds on different terms than other investors. To the extent that a side letter relates to financial matters (for example, management fees and performance fees) which do not cause other investors to pay additional expenses, Hudson Bay and the Credit Funds will be absolutely protected in entering into such side letters. To the extent that a side letter relates to other business terms, Hudson Bay and the Credit Funds will be absolutely protected in entering into such side letter, provided that Hudson Bay believed in good faith that the terms of such side letter would not materially adversely affect the other investors as a group. All side letters will be subject to Hudson Bay’s general authority to postpone the calculation of net asset value, withdrawals and the payment of withdrawal proceeds.

In the case of certain investors that are subject to various statutory and/or regulatory requirements with respect to their respective investments in the Credit Funds (including the receipt of additional information relating to such investments), Hudson Bay is expressly authorized to agree to such requirements with respect to such investments, provided that Hudson Bay determines that doing so will not give such investors an unfair advantage over other investors.

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 “Multi-Strat 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 “Multi-Strat Performance Fee”). Under the modified loss carry forward provision, the Multi-Strat Performance Fee will be reduced by half to 10% until 2.1 times the loss is recovered for such investment. For example, if an investor in a particular Multi-Strat Fund suffers a loss of \$100, the next \$210 of net profits will be subject to the reduced 10% Multi-Strat Performance Fee. Additional net profits in excess of \$210 will be subject to the full 20% Multi-Strat Performance Fee.

Hudson Bay reserves the right to reduce, waive or calculate differently the Multi-Strat 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 preparing and delivering 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 Multi-Strat Management or Performance Fees payable to such affiliate will reduce the Multi-Strat 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 Multi-Strat Management and/or Performance Fee. If the Multi-Strat Management or Performance Fees payable by the Multi-Strat Fund to the Hudson Bay affiliate would exceed the combined Multi-Strat 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 Hudson Bay; (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 preparing and delivering 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 Credit Funds

Management Fee

Investors in the Credit Funds are generally charged a management fee, depending on the pertinent investor series, equal to 1.25%, for Charter Series interests, or 2% per annum, for General Series interests, of the amount invested in a particular Credit Fund (the "Credit 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 Credit Funds are also generally charged a performance allocation, depending on the pertinent investor series, equal to 17.5%, for Charter Series interests, or 20% per annum, for General Series interests, of the net profits allocable to the amount invested in a particular Credit Fund, subject to a "high water mark" provision (the "Credit Performance Fee").

Charter Series interests will be offered until the earlier of: (i) the 9th month following the initial issuance of Fund interests; or (ii) the beginning of the first calendar month as of which Credit Fund investors (other than certain parties related to Hudson Bay, as set forth in the applicable PPM) have made \$150 million of aggregate "Net Subscriptions" (Capital Contributions *less* Withdrawals) to the Credit Funds; provided that Hudson Bay may terminate the offering of Charter Series at any time on not less than 90 days' notice.

Hudson Bay reserves the right to reduce, waive or calculate differently the Credit Management and Performance Fees with respect to any investor (and has done so on occasion), including, without limitation, investors that are current or former Hudson Bay principals or employees, other pooled investment vehicles advised by Hudson Bay, Hudson Bay affiliates and tax or estate planning vehicles established for the benefit of any of the foregoing.

Early Withdrawal Fees

Credit Fund investors generally are subject to an “early withdrawal fee” equal to 4% of proceeds withdrawn prior to the 12th month-end following the effective date of the applicable capital contribution (the “Soft Lock-Up Period”), payable to the Credit Master Fund, as described more fully in the pertinent PPM.

Other Types of Fees or Expenses

Credit Fund investors bear indirectly the fees and expenses charged to the Credit Funds. These fees and expenses typically include, without limitation, (i) investment-related expenses of the Credit 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 and research-related travel and lodging expenses; (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) 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); (vii) accounting, auditing and tax preparation expenses; (viii) costs of preparing and delivering reports and notices; (ix) organizational expenses; (x) expenses relating to obtaining insurance for officers and/or members and employees of the Onshore Credit Fund General Partner and Hudson Bay Credit and its affiliates; (xi) corporate licensing fees and other professional fees; (xii) fees and expenses of the directors of the Credit Master Fund; (xiii) bank service fees; (xiv) withholding and transfer fees; (xv) entity-level taxes; and (xvi) other extraordinary expenses and other similar expenses related to the Credit Funds.

In some cases, a Credit 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.

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, the IP Funds and the Credit 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.

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.

The Credit Funds

Methods of Analysis, Investment Strategies and Risk of Loss

Hudson Bay's investment objective on behalf of the Credit Funds is to seek to generate sustainable, superior, risk-adjusted returns through all stages of a credit cycle by implementing a variety of investment strategies intended to capitalize on inefficiencies in the market for distressed securities. Hudson Bay attempts to focus on investments in which it is able to identify, and largely isolate from the interference of macroeconomic factors, idiosyncratic risk and profit potential. Hudson Bay attempts to determine the core components of marked-to-

market risk in particular positions in an attempt to construct profitable combinations of arbitrage positions and hedges. Hudson Bay will try to avoid trades which it believes are crowded with multiple market participants — creating market “noise” which interferes with Hudson Bay’s idiosyncratic analysis of whether to acquire a position as well as the realization of profits or control of losses on positions once acquired.

The Credit Funds will invest in both public and private securities, which may include secured bank debt, senior unsecured bank debt, subordinated bank debt, investment grade and high-yield bonds, funded and unfunded bridge loans, trade claims, distressed securities, mezzanine securities, equity securities, convertible securities, options, warrants, when-issued securities, leases, and credit and other derivatives such as swaps, forward contracts and futures. The Credit Funds generally will acquire assets in the secondary market but in certain circumstances may invest directly in certain issuers. The Credit Funds may also invest in financially stable issuers.

The Credit Funds’ portfolio is focused on investing in four core strategies in which Hudson Bay believes it has developed expertise and a potential competitive advantage: (i) priority debt; (ii) capital structure arbitrage; (iii) classical distressed; and (iv) liquidations. These four strategies each have distinct risk-reward characteristics, and Hudson Bay will seek to deploy capital to each at opportune times in a credit cycle.

Hudson Bay’s research process includes fundamental credit analysis, combined with due diligence into the industry and market position of each of the issuers in which the Credit Funds invest, as well as thorough legal and documentary analysis of the relevant instruments. In evaluating specific investment ideas for the Credit Funds, Hudson Bay will analyze and assess each prospective investment’s value, capital structure, corporate structure, liquidity position, financial performance and competitive environment in an attempt to identify mispriced opportunities.

The strategies and instruments described above, as well as the markets in which they are implemented, may change and evolve over time, and Hudson Bay is not restricted from implementing any given strategy on behalf of the Credit Funds. There are no limitations on the types of securities or other instruments in which the Credit Funds may invest, the types of positions the Credit Funds may take or the concentration of their investments.

Priority Debt Investments

The Credit Funds’ priority debt investments will focus on senior debt issued by financially stressed or distressed companies. While such debt instruments are subject to a high risk of default, Hudson Bay purchases these investments on the assumption that even in a default scenario, lenders will suffer no impairment of principal due to the senior position in the capital structure, the underlying collateral and other factors. True priority debt can often drive the bankruptcy process and potentially generate attractive risk-adjusted returns when the issuer emerges from bankruptcy. Prior to making a priority debt investment, Hudson Bay will attempt to gain a thorough understanding of the operative documents of the issuer so as to be clear as to the rights provided to the Credit Funds as a holder of such debt. Hudson Bay then will take an active role in the reorganization process in an effort to maximize the value of such rights. Hudson Bay expects that the Credit Funds’ portfolio will be biased towards Hudson Bay’s

comparatively lower-risk, lower-return priority debt strategy during periods when Hudson Bay views the overall risk in the below-investment grade credit market to be high.

Capital Structure Arbitrage

Capital structure arbitrage, as implemented by Hudson Bay, attempts to capitalize on pricing anomalies between different securities within the same capital structure. Capital structure arbitrage trades generally are structured to have minimal downside risk and modest positive carry with a possible (but not likely) scenario for outsized returns. Examples of capital structure arbitrage include, but are not limited to, taking: (i) long and short positions in debt and/or equity securities at different levels of an issuer's capital structure; (ii) long and short positions in debt securities with different durations; (iii) long and short positions in debt securities with different legal protections; and (iv) long and short positions in securities issued by different entities within a single capital structure. Hudson Bay believes that the reduced availability of trading capital at major market-making banks in recent years has created market inefficiencies.

Classical Distressed Strategy

The Credit Funds' classical distressed strategy involves acquiring securities and other instruments (bonds, trade claims and/or equity) at the bottom of the capital structure of issuers either at risk of, undergoing or exiting bankruptcy, with the objective of receiving equity in the reorganized company. Classical distressed is the riskiest of the strategies employed by Hudson Bay on behalf of the Credit Funds because junior claimants of a company in bankruptcy are always at risk of recovering no value. However, classical distressed investments offer the opportunity to earn significantly outsized returns from the equity of the reorganized company appreciating in value as its financial distress recedes. In its classical distressed investments, Hudson Bay will seek to be an active participant and/or leader on creditors' committees, attempting to influence the bankruptcy process so that the post-reorganization holdings of the Credit Funds are well-positioned for substantial value creation. Hudson Bay expects that the Credit Funds will be biased towards Hudson Bay's comparatively higher-risk, higher-return classical distressed strategy at times when Hudson Bay views the overall risk in the below-investment grade credit and equity markets to be low.

Liquidations

In liquidations, a bankrupt issuer no longer has an operating business and creditors seek to maximize recovery from the proceeds of asset sales, litigation or otherwise. This strategy is driven by Hudson Bay's understanding of the legal procedures surrounding liquidation, as well as an examination of the operative documents so as to determine any advantages which it believes certain tranches of debt may have in the liquidation process. The results of these situations are highly case-specific, frequently judicially determined and often have little, if any, correlation with overall debt or equity market returns.

Dynamic Hedging

A key to Hudson Bay's strategy is dynamic portfolio hedging, in an effort to avoid unpredictable, sudden short-term losses caused by macroeconomic and other broad market factors that could defeat the Credit Funds' long-term portfolio objectives. Hudson Bay's

objective is to preserve capital in unfavorable markets in order to have such capital available to generate profits when the credit cycle creates more financial distress among highly leveraged companies. The Credit Funds will attempt to hedge against equity beta, credit beta, interest-rate and currency risks.

Hudson Bay will generally aim to hedge the Credit Funds' portfolio at both the overall portfolio level and with respect to the specific positions held. Hudson Bay will implement its dynamic hedging strategy through the use of both cash and synthetic instruments (addressing credit risk, equity risk, interest rate risk and others) as well as through taking short positions intended both to hedge exposure and generate returns. In addition, Hudson Bay, as it deems appropriate, will acquire "tail insurance" to protect against market crises and financial turmoil.

Although Hudson Bay attempts to mitigate risk by hedging at the position and/or portfolio level, such attempts may not be effective and hedging strategies themselves could add additional risks. Moreover, Hudson Bay does not, in general, attempt to hedge all market or other risks inherent in the Credit Funds' portfolio, and hedges certain risks, if at all, only partially. Specifically, Hudson Bay may determine that it is economically unattractive, or otherwise undesirable, to hedge certain risks (either with respect to particular positions or the Credit Funds' overall portfolio).

Managing Portfolio Liquidity

Hudson Bay believes that maintaining portfolio liquidity is a risk management priority, especially in the distressed debt sector in which instruments can unexpectedly become illiquid, making it economically unfeasible either to continue to margin outstanding positions or to liquidate positions against which the market is moving so as to limit losses.

Material Risks

Investing in securities involves risk of loss that investors in the Credit 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 Credit Funds' investments. This summary does not attempt to describe all of the risks associated with an investment in the Credit Funds. Although no summary can fully describe all of the risks associated with such an investment, the Credit Fund PPMs contain a more complete description of the risks associated with an investment in the Credit Funds.

General Risks

Financing Arrangements; Availability of Credit

Hudson Bay intends to use leverage in connection with the Credit Funds' investment program. Hence, the ability of the Credit Funds to obtain financing can be material to their prospects for success. There can be no assurance that the Credit Funds will be able to maintain or even obtain adequate financing arrangements. Even if the Credit Funds are able to obtain credit, the exchanges, banks and dealers that provide financing to the Credit Funds generally can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies.

Furthermore, the price at which counterparties are willing to lend on the Credit Funds' portfolio collateral and the price at which they are willing to buy such collateral may differ materially.

Use of Leverage

The general risks associated with the use of leverage are increased in the case of the Credit Funds by the Credit Funds' focus on stressed/distressed debt instruments. Leveraging a portfolio of such instruments involves the particular risks, among others, of: (i) sudden increases in the applicable margin requirements due resulting from downward revaluation of certain instruments held as a result of bankruptcy or other developments; (ii) the instruments acquired with leverage not generating any daily mark-to-market cash flows while daily "variation margin" payments must be made; and (iii) the need to be able, in order to protect an existing position, to obtain additional financing as "working capital" in order to finance the Partnership's participation in bankruptcy proceedings, purchase additional related securities in order to avoid material dilution and/or other purposes.

Intense and Focused Competition

Numerous institutional investors as well as private investment funds have recognized the potential opportunities created by the current dislocations in the credit markets and have formed vehicles similar to the Credit Funds in an effort to capitalize on such dislocations. Many of these investors and funds have resources substantially in excess of those available to the Credit Funds and are already operating in the markets acquiring opportunities which the Credit Funds may have felt would be desirable for the Credit Funds. There can be no assurance that the Credit Funds will be able to compete successfully against such investors or that the Credit Funds will have access to sufficient investment opportunities to fully deploy its capital.

Bankruptcy Proceedings

Hudson Bay expects that a significant percentage of the issuers in which the Credit Funds invest will become involved in bankruptcy proceedings. It is impossible to predict the outcome of any bankruptcy proceeding or restructuring, and any such outcome may be delayed for years.

Volatility

The Credit Funds' investments are likely to fluctuate materially and suddenly in value, irrespective of actual trading gains or losses. Distressed credit investments are particularly subject to violent swings in valuation due to issuer-specific as well as general market events.

Strategy Risks

Uncertain Recovery Value of Collateral

A substantial component of Hudson Bay's analysis of the desirability of making a given investment relates to the estimated residual or recovery value of such investments in the event of the insolvency of the issuer, which will be driven primarily by the value of the collateral for such investment. The value of collateral can, however, be extremely difficult to predict, and in certain circumstances collateral may be substantially worthless at the time of an issuer's default.

Concentrated Strategy

The Credit Funds have been formed with the purpose and objective of concentrating the Credit Funds' portfolio investments in the distressed credit markets. Such markets may be disrupted to the point that it is not practicable to invest in such markets within acceptable risk/reward profiles.

Reliance on the Portfolio Manager's Market Judgment

A wide range of disparate factors affect distressed debt and "special situations" equity investing. Discretionary strategies necessarily lack the pre-determined discipline and control of more systematic and quantitative methods and are subject to the risk of the subjective and discretionary decision-making of the portfolio manager implementing such strategies.

Issuer-Specific Risk

Hudson Bay will be focusing on idiosyncratic, issuer-specific factors more than general macro economic factors. It is particularly difficult to generate economic analyses and future projections for "stressed" and distressed issuers or the range of bankruptcies or restructurings.

Lack of Liquidity in the Credit Funds' Portfolio

Material portions of the Credit Funds' portfolio may be, or unexpectedly become, illiquid, making it economically unfeasible for the Credit Funds to recognize profits on open positions, close out open positions against which the market is moving or redeploy capital in order to take advantage of new profit opportunities.

Participation in Control Situations

From time to time, Hudson Bay will take control positions in an issuer in an effort to maximize value. Control investments take an inordinately long period to exit, and Hudson Bay's position of control can be highly resource-intensive and contentious. Hudson Bay and the Credit Funds may be particularly vulnerable to being named as defendants in litigation relating to their actions while in control of an issuer and may, from time to time, come into possession of material non-public information concerning specific issuers although internal structures are in place to prevent misuse of such information.

Litigation Risk

The Credit Funds may be subject to litigation from time to time as well as be involved in bankruptcy and insolvency proceedings. The credit markets (especially the markets in stressed and distressed debt) in general are already subject to material litigation and will almost certainly become subject to more such litigation in the future. Bankruptcy and foreclosure proceedings are often adversarial, protracted and expensive. The expense of defending or prosecuting litigation will be borne by the Credit Funds.

Certain Risks Associated with Particular Instruments, Trading and Investing Techniques

High-Yield and Distressed Investments

Investments traded by the Credit Funds may be subject to price volatility due to various factors, including changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. Investments may pay fixed, variable or floating rates of interest, may include interest-only, principal-only or residual obligations and may be subordinated or otherwise subject to substantial credit risks. In addition to the sensitivity of these instruments to overall interest-rate movements, a fundamental credit risk exists based on the issuer's ability to make principal and interest payments.

The Credit Funds may invest in synthetic debt instruments, such as asset swaps, which are often subject to more categories of risk than conventional debt. The Credit Funds not only will trade in high risk and illiquid markets but also will trade high-yield and distressed credit instruments in such markets. These instruments are subject to substantial risk of default, bankruptcy, moratorium and similar events. Valuing high-yield and distressed credit instruments is an inherently uncertain process due to the lack of available market prices and the issuers' uncertain financial condition.

Loans

Many of the loans acquired by the Credit Funds will be issued by entities that face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments. The market values of certain of these debt investments may reflect individual corporate developments, and it is likely that a major economic recession would have a materially adverse impact on their value.

Bank Loans

The Credit Funds may acquire interests in bank loans and other debt obligations either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. As a holder of a participation interest, the Credit Funds generally will have no right to exercise the rights of the lender under the credit agreement. As a result, the Credit Funds will be exposed to the credit risk of both the borrower and the institution selling the participation.

Subordinated Interests and Note Classes

The Credit Funds may invest in subordinated interests and note classes, each representing a highly leveraged investment in the underlying reference assets. The market value of these interests or notes will be significantly affected by, among other things, changes in the market value of, distributions and prepayments made by, and the prices and interest rates of, the underlying reference assets.

Credit Default Swaps (“CDS”)

The Credit funds will enter into credit derivative contracts, including CDS. In many cases, CDS are the only effective means of taking short positions in an issuer’s debt. In circumstances in which the Credit Funds are the CDS buyer and do not own the debt securities that are deliverable under a CDS, the Credit Funds are exposed to the risk that deliverable securities will not be available in the market or will be available only at unfavorable prices.

Derivative Investments in General

The Credit Funds will make limited use of various derivatives, including forwards, futures, swaps and options, almost exclusively for hedging purposes. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as of deviations between the actual and the theoretical value of such derivatives. In addition, the markets for certain derivatives are frequently illiquid.

Non-U.S. Investments

Hudson Bay may invest a portion of the Credit Funds’ portfolio outside of North America. Non-U.S. investments involve certain special risks, including: (i) political or economic instability; (ii) the unpredictability of international trade patterns; (iii) the possibility of foreign governmental actions such as expropriation, nationalization or confiscatory taxation; (iv) the imposition or modification of currency controls; (v) price volatility; (vi) the imposition of withholding taxes on dividends, interest and gains; and (vii) different bankruptcy laws and practice. As compared to U.S. entities, non-U.S. entities generally disclose less financial and other information publicly and are subject to less stringent and less uniform accounting, auditing and financial reporting standards. Also, it may be more difficult to obtain and enforce legal judgments against non-U.S. entities than against U.S. entities.

Short Sales

Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security or an index may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Credit Funds. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing the loss incurred by the Credit Funds. Furthermore, the Credit Funds may prematurely be forced to close out a short position if a counterparty from which the Credit Funds borrowed securities demands their return, resulting in a loss on what might otherwise have been ultimately a profitable position.

No Formal Diversification Policies

Hudson Bay is not restricted as to the percentage of the Credit Funds’ assets that may be invested in any particular issuer, industry or instrument. In attempting to maximize the Credit Funds’ returns, Hudson Bay may concentrate the holdings of the Credit Funds in those issuers, industries and/or instruments that, in Hudson Bay’s sole judgment, provide the best profit opportunities. A loss in any such concentrated position could result in significant losses and a proportionately

higher reduction in the Credit Funds' net asset value than if the Credit Funds' capital had been spread over a wide number of positions.

Item 9. Disciplinary Information

On September 16, 2013 Hudson Bay entered into a settled administrative proceeding with the SEC relating to alleged violations of Rule 105 of Regulation M under the Securities Exchange Act of 1934 without admitting or denying the SEC's allegations (the "Settlement"). Rule 105 generally prohibits purchasing an equity security from an underwriter, broker or dealer participating in a public offering if the purchaser sold short the security that is the subject of the offering during a restricted period (usually defined as five business days before the pricing of the offering), absent an exception. Rule 105 applies irrespective of any intent to violate the Rule. Pursuant to the Settlement, \$665,674.96 in disgorgement, \$11,661.31 in prejudgment interest and a civil penalty of \$272,118, was borne by Hudson Bay, and not its investors. The Settlement also requires Hudson Bay to cease and desist from committing or causing any violations and any future violations of the Rule. Hudson Bay cooperated with the SEC at all times during its investigation and has implemented procedures for ensuring compliance with the Rule, as well as an internal training program to educate its employees further on its nuances. The SEC order notes that in determining the size of the penalty portion, the SEC considered "remedial acts promptly undertaken" and "cooperation afforded to Commission staff" by Hudson Bay.

Item 10. Other Financial Industry Activities and Affiliations

As discussed above, Hudson Bay Capital is the sole member of Hudson Bay Credit, which provides discretionary investment management services to the Credit Funds. In accordance with SEC guidance, Hudson Bay Credit is registered as an investment adviser in reliance on the Form ADV filed by Hudson Bay Capital. Hudson Bay Credit, its employees and any persons acting on its behalf are subject to Hudson Bay Capital's supervision and control and to Hudson Bay's compliance program and Code of Ethics. While Hudson Bay Credit is responsible for the investment and trading decisions for the Credit Funds, all non-trading and operating business decisions for the Credit Funds have been delegated to Hudson Bay Capital. In addition, Hudson Bay Credit's trading on behalf of the Credit Funds is subject to Hudson Bay Capital's ultimate control, risk management and supervision. Hudson Bay Capital also has control over the Onshore Credit Fund General Partner, as Hudson Bay Capital Associates LLC (the General Partner of the Multi-Strat Onshore Fund) is the sole member of the Onshore Credit Fund General Partner.

The ongoing involvement of Hudson Bay Capital with the operations of Hudson Bay Credit and the Onshore Credit Fund General Partner will create conflicts of interest that would not arise were Hudson Bay Credit and the Onshore Credit Fund General Partner independent of Hudson Bay Capital. Such involvement may, in certain cases, impede the operations of Hudson Bay Credit and the Onshore Credit Fund General Partner, to the possible detriment of the Credit Funds. However, these potential conflicts are mitigated by application of Hudson Bay's trade allocation policy, as well as by the presence of the Credit Funds' portfolio manager, Marc Sole (the "Credit Portfolio Manager"), on the managing boards (the "Credit Boards") of Hudson Bay Credit, the Onshore Credit Fund General Partner, and, once launched, the special shareholder to the Offshore Credit Fund, Hudson Bay Credit International Associates LLC (the "Credit Special

Shareholder”). The Credit Portfolio Manager exercises control over the Credit Funds’ day-to-day investing and trading decisions, subject to the supervision of Sander Gerber, as well as to Hudson Bay Capital’s compliance policies and procedures and agreed upon risk guidelines, trading limitations and restrictions.

The Multi-Strat Master Fund is a significant investor in the Credit Master Fund. The Multi-Strategy Master Fund is not subject to the Credit Management or Performance Fees or to the Soft Lock-Up Period, and may, at any time, on 10 days’ notice, transfer all or a portion of its investment in the Credit Master Fund to a separately managed account (the “SMA”), which would be managed by Hudson Bay pursuant to the same strategy as the Credit Funds, subject to Hudson Bay’s trade allocation policy. In the event the Multi-Strat Master Fund elects to make such a transfer (the “SMA Transfer”), the Multi-Strat Master Fund will receive, as a redemption in-kind, a “vertical slice” of the Credit Master Fund’s portfolio in proportion to its interest in the Credit Master Fund. The intent of the “vertical slice” SMA Transfer is to ensure that the Multi-Strat Master Fund receives its proportionate share of each Credit Master Fund position. In the event certain positions cannot be transferred as part of the SMA Transfer, the Multi-Strat Master Fund would continue to participate in such positions through a participation agreement or similar arrangement. In addition, the Multi-Strat Fund may withdraw any or all of its investment in the Credit Master Fund upon the occurrence of certain specific events as detailed in the applicable PPM (the “Special Withdrawal”). In the event that the Multi-Strat Master Fund notifies the Credit Funds that it will be making a Special Withdrawal, each of the Credit Funds’ investors will be notified of such Special Withdrawal as well as the circumstances leading to such Special Withdrawal and permitted to make a withdrawal on the same terms and in the same proportion as the Multi-Strat Master Fund.

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/or its affiliates (including its employees) 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, conflict with or compete with the Fund and/or may involve substantial time and resources of Hudson Bay and/or its affiliates. These activities could be viewed as creating a conflict of interest in that the time and effort of Hudson Bay and/or its affiliates would not be devoted exclusively to the business of the Funds, but would be allocated between the business of the Funds and such other business activities. Further, by reason of these activities, Hudson Bay may not be able, or may determine not, to initiate a transaction for the Funds that Hudson Bay may have otherwise initiated for 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 generally 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 Capital.

Hudson Bay Credit Associates LLC (as previously defined, the "Onshore Credit Fund General Partner") is the general partner of the Onshore Credit Fund. Any persons acting on behalf of the Onshore Credit Fund 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 Onshore Credit Fund General Partner is registered as an investment adviser in reliance on the Form ADV filed by Hudson Bay Capital.

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 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 arrangements under which Hudson Bay guarantees a broker-dealer a certain amount of business in exchange for products or services. However, Hudson Bay may use certain broker-dealers that provide certain research or other products or services to their customers, including Hudson Bay, without being requested to do so, even if such broker-dealers charge more than the lowest available commission available in the market for "execution only" services. 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 and/or regulatory 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, regulatory, or legal reasons, to avoid odd lots, or in cases in which such an allocation would result in a *de minimis* allocation.

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 may 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 may 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 and Credit Fund investors receive unaudited performance information at least quarterly and audited financial statements on an annual basis. A Multi-Strat or Credit 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.

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 covered by Rule 206(4)-2 of the Investment Advisers Act of 1940 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).

Item 16. Investment Discretion

Hudson Bay provides discretionary investment advisory services to the Funds. Hudson Bay may make investment decisions, without consultation with the Funds or the Fund investors 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.