



What is a special purpose acquisition company (SPAC)?

SPACs are publicly listed companies whose management teams raise money at an initial public offering (IPO) and generally have 12 to 24 months to find a target company to acquire. Proceeds from a SPAC's IPO must be deposited into a trust account and invested in Treasury bills or government money market funds, while the SPAC's management team seeks an appropriate acquisition. The trust account is monitored by a third party entity and generally cannot be used for anything other than the acquisition of a company.

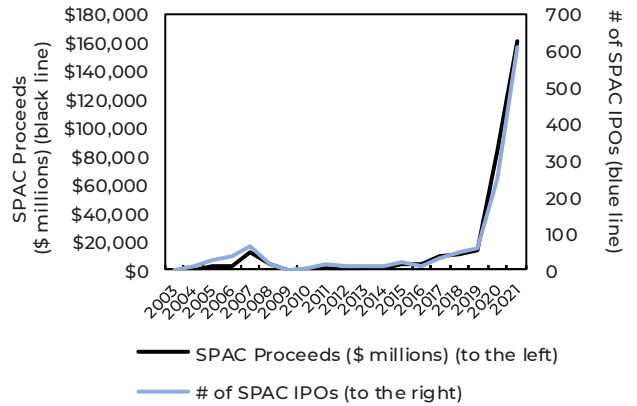
The proceeds of the trust are not released until the earliest of:

1. the completion of the initial business combination,
2. the redemption of any shares in connection with a shareholder vote, or
3. the redemption of shares at the end of the stated term if the SPAC is unable to complete a business combination.

New issuance for SPACs has grown significantly over the last few years and as of the end of 2021, there were 574 SPACs seeking acquisition, with IPO proceeds greater than \$154 billion. For all of 2021, SPACs accounted for approximately 63% of the total number of U.S. IPOs.

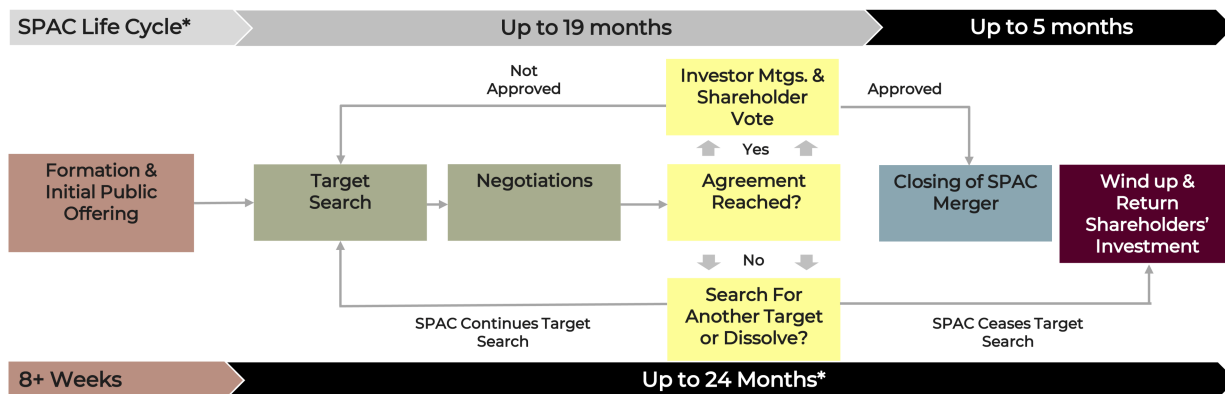
Special Purpose Acquisition Companies Initial Public Offerings

(2003 - 2021)



SPAC Analytics, <https://www.spacanalytics.com>, data as of 12/31/2021

Typical SPAC Timeline



*For illustrative purposes only. The SPAC life cycle presented is based on a 24 month timeline to complete a merger.
Source: <https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/spac-merger.html>

Why do we like SPACs (pre-acquisition)?

SPAC securities can be:

1. Units
 - Can be separated into their individual components (e.g., warrants, rights, and common shares).
 - Can be traded above or below the value of the trust.
2. Common shares
 - A SPAC's common shareholders are the stakeholders with a claim to the trust account.
 - Can be traded above or below the value of the trust.

After the IPO, shares of a SPAC trade on an exchange (e.g., NYSE, Nasdaq) and are subject to free market forces. This means that SPACs can trade at a premium or a discount to the value of the trust account.

Through our analysis, we are able to identify the trust value per share at a SPAC's IPO. Since the trust is invested in short-term U.S. Treasury bills or government money market funds, we can also calculate how much the trust may earn in interest over the life of the SPAC. Summing the initial value and the estimated potential interest earned, we are able to estimate the future value of the trust at the end of the stated term. We aim to buy SPACs at a discount to the estimated future value of the trust. This allows us to estimate a "floor" return that can be achieved by holding a SPAC to its stated liquidation date. We view SPACs as buying cash at a discount.

How do they fit in our clients' portfolios?

1. We focus on investing in SPACs pre-acquisition through what we believe is a conservative approach.
2. Our goal is to maximize returns while minimizing risk. One of the steps we take to do this is to establish pre-determined sale levels at or above trust.
3. We see SPACs as a fixed income alternative with low duration risk and significant safety of principal.
4. SPACs also have the upside potential of equities if a potential deal is well-received by the market.

To be sure, there are many things investors in SPACs must analyze before and during the length of their investment. Like any other investment, knowing the ins and outs of SPACs is critically important to avoid pitfalls. We feel that our team's experience with investing in SPACs, combined with market conditions of elevated equity valuations and low fixed income yields, warrants utilization of SPACs as a component of investors' overall portfolios.

To learn more about how we invest in SPACs or if they can be a compliment to your overall strategy, please contact us to see how we can help.

Karpus SPAC Strategy: An asymmetric Return Profile

Base Case



SPAC liquidation.

Middle Case



Deal announcement and common shares trade below trust.

- SPACs offer shareholders the ability to redeem their shares for their pro-rata portion of the trust account at the date of the merger vote.
- Similar to liquidation, investors benefit from the closing of the discount plus interest earned on the trust, but it happens sooner.

Best Case



Deal announcement and common shares trade above trust.



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