KARPUS INVESTMENT MANAGEMENT

COMMENTARY

April 2022

Notes on our approach to investing in Special Purpose Acquisition Companies

The first quarter of 2022 proved to be one of the most painful quarters for bond investors in recent history. In fact, the 10-year and 30-year U.S. Treasuries and municipal bonds (as measured by the Barclays Municipal Bond Index), were all within the bottom 5 worst performing quarters over the past 40 years.

This recent poor performance combined with higher inflation and the potential for multiple increases in the Federal Funds Target rate over the next 12 months can have fixed income investors looking for an alternative. We believe that special purpose acquisition companies (SPACs) purchased at a discount to their underlying trust value prior to completing their business combination are one of the best fixed income alternatives that offer attractive returns with minimal interest rate risk.

Keeping yields attractive has typically required an investor to either extend duration or move down in credit quality. Our approach to SPACs doesn't require either.

The first question that likely comes to mind is: what is a SPAC?

SPACs emerged in the early 1990s. Formed during an initial public offering (IPO), a SPAC essentially consists of a blank check, written by investors to a management team for the sole purpose of effecting an acquisition in a specific period of time based on pre-defined criteria. During the IPO, a SPAC is typically sold as a unit and proceeds are deposited into a trust account. Each unit typically costs $10 and consists of a varying combination of common shares, warrants, and rights. Further, management teams can contribute additional money to the trust account to incentivize investors to purchase the IPO.

The value of a SPAC unit package often runs inversely to investor's perception of the management team's prospective success in selecting an accretive acquisition candidate. Experienced management teams with a history of accretive acquisitions can sell units that have minimal explicit value. In contrast, we've seen that less experienced management teams tend to pack their units with value in order to make them more attractive. For example, experienced management teams can sell units for $10 consisting of one common share, 1/3 of a warrant and $10.00 cash in trust, whereas a less experienced management team can offer a unit consisting of one common share, one warrant and a starting trust value of $10.10.

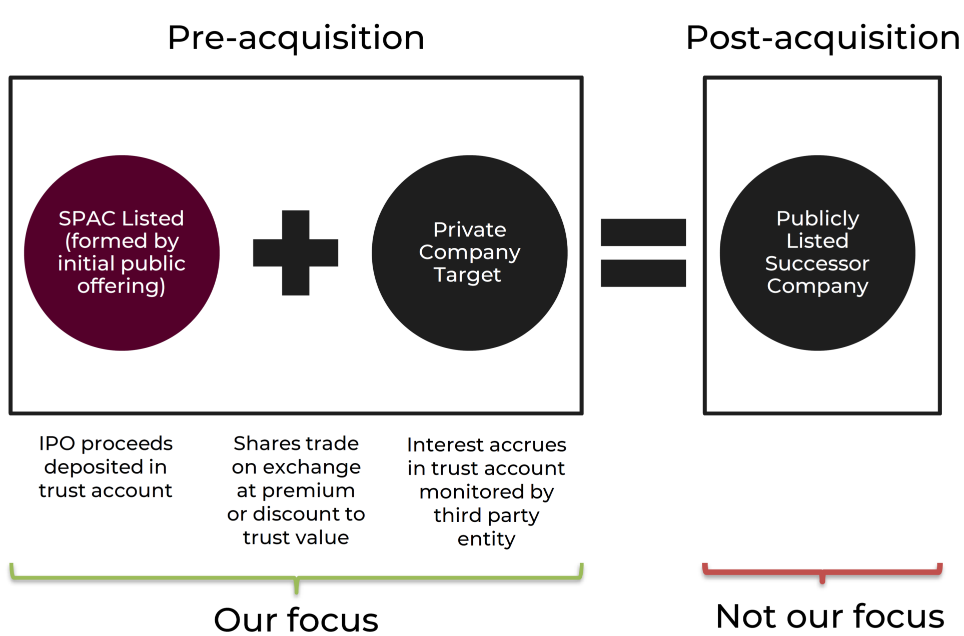
The cash received from the IPO (and management) is deposited into a trust account until an acquisition candidate is found. In the interim, the trust is held in cash and short-term government securities – earning interest.

Only common shareholders have a claim to the cash held in the trust account and that claim can only be made under certain conditions (typically when the SPAC has found an acquisition target or upon SPAC liquidation).

Additionally, the trust is held at a custodian independent of the SPAC management team and is monitored by a third-party trust company. These investor protections are in place regardless of the strength of the SPAC's management team.

Putting all of these factors together, the resulting SPAC (pre-acquisition) essentially becomes a measurable, interest-bearing pool of cash and short-term government securities as the management team searches for an acquisition candidate.

Following the IPO, each unit will subsequently split into the unit's individual, tradable components. Continuing the weaker-management example from earlier, the unit that sold for $10 can now be split into a common share selling for $9.70 and a warrant selling for $0.30. At this point, SPACs can offer a myriad of risk/return combinations to an investor. Investors only interested in the warrants can sell the common shares, which can trade at a discount or premium to an estimated value of the underlying trust.



The workout of a SPAC investment can happen at any point during the SPAC's life, but when we buy a SPAC at a discount to the value of the trust, we're anticipating one of three scenarios:

The first scenario occurs when the SPAC is unable to effectuate a transaction and liquidates, causing the cash to be returned to common shareholders. This is our base, "worst-case" scenario, which still results in a positive return to shareholders within the SPAC's life span (12-24 months) dependent on the total return of the underlying securities held in the trust account.

The second and third scenarios occur when a SPAC finds an acquisition target. Because SPAC common shares are freely traded, SPAC common shares can trade a discount or premium to the value of the trust account. If the acquisition target is poorly received, shares will continue to trade below trust value. At that point, under our strategy we'd exercise our right to demand our shares be redeemed for our pro-rata share of the trust account. When this scenario occurs, we close the discount to cash quicker than if a SPAC liquidates.

Lastly, the third scenario is when a SPAC finds an acquisition target and the transaction is well received by the market. The shares of the SPAC trade above the value of cash in the trust and we simply sell into the market. In this scenario, we would not only close the discount to cash quickly, but we would also earn an extra return above cash in the trust.

Importantly, at no time do our clients truly experience owning the 'operating company' that would result from a completed SPAC transaction. Also, with SPAC shareholders being able to request their shares be redeemed for their portion of the trust account in each of the above scenarios, they are provided with a known minimum exit price.

Financial market followers have probably heard the term "SPAC" in the media and associate it with risk. Although this characterization can be appropriate for the post-acquisition phase of a SPAC, we feel that our pre-acquisition approach is a conservative one that is one of the most attractive short-term fixed income alternatives that we are aware of.

By purchasing SPAC common shares pre-acquisition at a discount to their cash value, investors achieve an asymmetric return profile with a known floor return if held to liquidation date and the potential for equity like upside if an attractive acquisition is identified and the SPAC trades at a premium, all with little to no interest rate risk.

To learn more about this topic or other Karpus insights, please take a look at our website for further information.

Sources: Bloomberg Finance, L.P. and The Wall Street Journal

Investing in special purpose acquisition companies (SPACs) can lead to conflicts of interest as the economic interests of the entity or management team that forms the SPAC (the "Sponsors") and the directors, officers, and affiliates (the "Affiliates") of a SPAC may differ from the economic interests of the public shareholders (the "Shareholders") as the Sponsors and/or Affiliates evaluate and decide whether to recommend or support a potential business combination to Shareholders. Karpus Investment Management ("Karpus" or "our") invests in SPACs in a pre-acquisition basis only. Our strategy is to purchase shares below cash value of a SPAC's trust. Therefore, if a liquidation of a SPAC were to be announced or a deal were to be approved that Shareholders differed in opinion from Sponsors and Affiliates, Karpus can exit its position in the SPAC for a pro-rata portion of the SPAC's trust account (which would be the money initially deposited in the SPAC's trust account plus all interest earned over the life of the SPAC). Karpus believes that our investment approach mitigates the risk associated with any conflict between the Sponsors and/or Affiliates of a SPAC and Shareholders.

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Important Notice

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