Bulldog Investors

PROTECT AND GROW.

Heads you win. Tails you don't lose.

Investing in Blank Check Companies

Investors Face a Difficult Choice

The equity markets have been on a dizzying rally post-recession and, by most metrics, appear to be near peak valuations. With interest rates still at historic lows following the financial crisis, bonds offer meager yields. Looming over the bond market is the specter of higher interest rates, which, if it were to materialize, would lead to loss of principal in bond portfolios. Investors face quite a dilemma:

- Hope the almost 9-year-old bull market continues to run,
- Or settle for subpar fixed-income options.

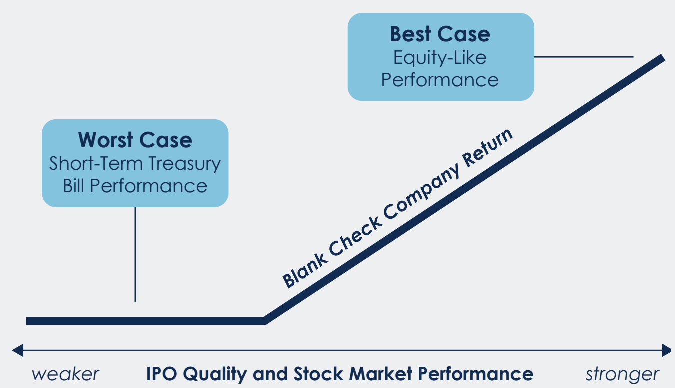
Are Those the Only Choices? Actually, No

Blank check companies, also known as SPACs (Special Purpose Acquisition Companies), offer investors a viable way forward. Combining safety of principal with the opportunity to invest in private equity-type investments, blank check companies provide investors with an asymmetric risk/return profile:

- The safety of short-term U.S. Treasuries—"Tails"
- With the optionality of equity investments—"Heads"

Additionally, unlike the returns from fixed income vehicles, as interest rates rise, returns from blank check companies will also rise. Based on our assessment of the current blank check company universe, we think it is reasonable to expect an unleveraged return of 6 to 10 percent on a diversified portfolio of blank check companies.

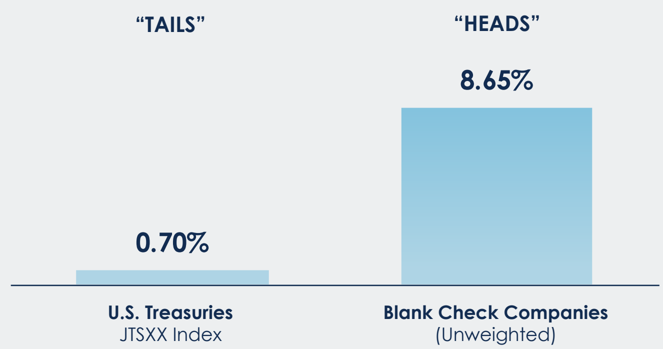
Blank Check Companies' Asymmetric Return Profile



For the 11 blank check companies with pending business combinations as of 12/1/17:

Average Cumulative Returns— U.S. Treasuries / Blank Check Companies

From Company IPO through 12/1/17



Source: Bloomberg

Blank Check Companies—the Basics

Their Purpose

Blank check companies are an alternative to traditional IPOs for bringing private companies public. Whereas a traditional IPO is initiated to capitalize a specific company, a blank check company is formed to raise the capital first and then find an attractive operating private company to capitalize—either through acquisition or merger (the “deal”).

Blank check companies are popular because they offer valuable benefits to all parties involved:

- For the private company—a quicker, cheaper way to access the public markets.
- For the sponsor of the blank check company—access to ready capital for doing private-company deals, from which they can earn a substantial return on investment.
- For investors—the opportunity to invest in a private equity-esque investment with strong checks and balances and attractive financial benefits.

Their Scope

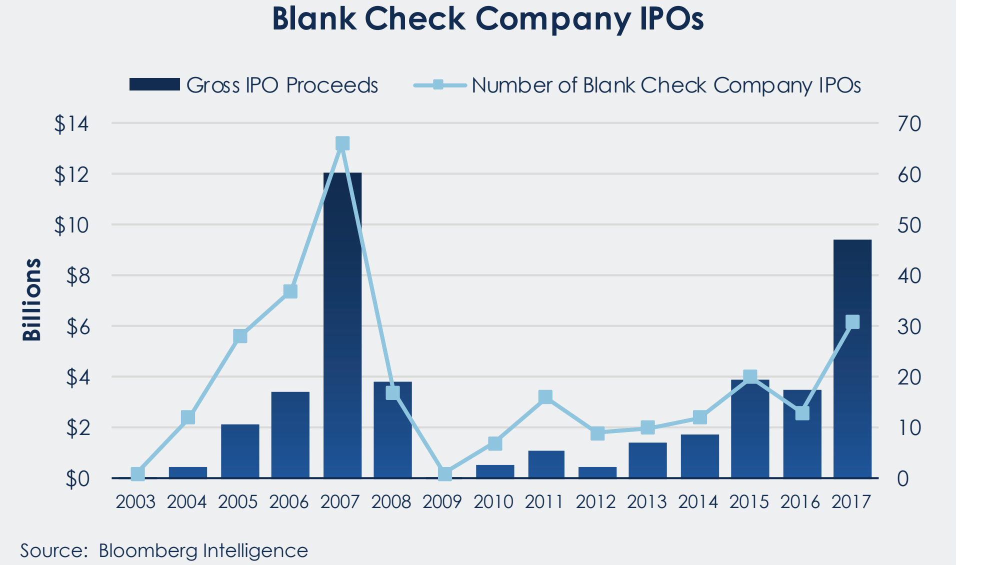
As of December 2017, there are 49 U.S.-listed blank check companies trading, with a total market cap of more than $12 billion.

Their Mechanics

A blank check company issues shares to the public, typically at $10 per unit. Each unit is comprised of one common share and a combination of warrants and (sometimes) rights. Shortly after the IPO, the units split and the components (common shares, warrants and rights) trade separately. The proceeds from the IPO are placed in a trust account where they are invested in short-term U.S. Treasury Bills. Following the IPO, the sponsor typically has 18 to 24 months to complete a deal with a private company:

- If the sponsor is unable to complete a deal, the trust account is liquidated and funds are returned to investors with interest.
- If the sponsor is able to arrange a business combination with a private company, investors in the blank check company vote “yea” or “nay” on the deal.
- If the deal is a good one, an investor can remain invested, with the possibility of capital appreciation on his or her units.
- If the deal is unattractive (or there is no deal), the investor can ask for his or her money back.

$9.4 BILLION has been raised by 31 blank check companies in 2017 alone



Source: Bloomberg Intelligence

The Trust Account

The structure of the trust account is extremely important, not just to returns, but to the safety of principal as well.

If no deal with a private company is consummated, investors get back only their pro rata portion of the trust account. Accordingly, potential investors should examine the trust account structure very carefully, including how the account's funds are invested and how they're protected from creditors and any potential liabilities.

What to look for...

1. Where are assets custodied?
Cash proceeds from the blank check company IPO should be custodied at a major and reputable financial institution and be overseen by an independent trustee as per the investment management trust agreement. No funds should be released unless a deal (business combination) is completed or the blank check company liquidates. Funds may be released for tax or working capital purposes if expressly stated in the trust agreement.

2. How much is initially invested in the trust account?
The amount of cash initially set aside for investors varies with each blank check company. Lesser-known sponsors and smaller investment banks may entice investors with more cash. Other sponsors will promise a bump in cash if the sponsor seeks an extension of time permitted to complete a transaction.

3. How are the assets invested?
To protect principal, assets should only be invested per the guidelines in the trust agreement and under the supervision of the trustee. The assets are typically invested in short-term U.S. government securities with a maturity of 180 days or less. There is no credit risk or interest rate risk.

4. Who has access to the interest earned on the trust account?
Investors should be entitled to the interest earned on the trust account. This will ensure investors earn a competitive return in the event no deal or a poor deal is announced, and reduce the opportunity cost of investing in a blank check company versus holding your cash in a bank account.

5. Are assets protected from claims against the trust?
If claims are brought against the trust by target businesses or vendors in the event of a liquidation, there should be a written guarantee from sponsors that they will pay claims so that the amount in the trust account is not reduced.

6. Does the trust pay the cost of dissolution?
If no business combination is completed and the blank check company is liquidated, it is important to know who is responsible to pay dissolution expenses because this will impact the liquidation proceeds. Does the sponsor bear this expense? Or are funds released from the trust account? If expenses are paid out of the trust account, the amount should be made clear in advance and capped.

The Redemption Feature

An important safeguard in the structure of a blank check company is the redemption feature, which allows investors to opt out of a poor deal and receive cash equal to their pro rata portion of the trust account—typically their initial investment plus interest.

How are deals approved? How do investors opt out?

When the management of a blank check company finds an attractive merger target, it is required to seek approval of the merger from investors. This is done in two ways.

- **Tender offer** In this instance, the blank check company will commence a tender offer to purchase all shares from investors that wish to exit the company for cash, at a price equal to their pro rata share of the trust account.
- **Vote** In the second (more common) method, a shareholder meeting is held and shareholders vote on the transaction. At this time, investors who choose not to stay in the deal may follow procedures to redeem their shares for cash.

Investors must take several steps to ensure they don't lose their right to redeem their shares…

a) Make sure that you are a shareholder of record

Shares purchased after the record date for a shareholder meeting are not entitled to vote and are not entitled to redemption rights. Therefore, it is extremely important that you be a shareholder of record. If not, in the event of a poor deal, you will be left holding shares of stock that may perform poorly, possibly resulting in loss of principal.

b) Shares must be voted

Shareholders of blank check companies must vote their shares. They can vote for or against the business combination, but shares must be voted and the proxy card checked off correctly or redemption rights will be lost.

c) Shares should be held in a cash account

Shares purchased in a margin account can be lent out by a broker's stock loan department. If that happens to blank check companies that you own, you will lose the ability to vote your shares and lose redemption rights.

d) Shares must be delivered to the transfer agent by the deadline

To complete the redemption request, shares must be delivered by the brokerage firm to the transfer agent by the deadline, which is usually two business days before the meeting date. If shares are not received by the transfer agent in a timely manner, they will not be redeemed.

Evaluating Sponsors and Investment Bankers

In addition to the structure of a blank check company, an investor needs to evaluate the capabilities of the sponsor and investment bank bringing the company public.

Not All Sponsors Are Created Equal

The intent of a blank check company sponsor is to find undervalued private companies, bring the companies public by tapping into capital provided by the public securities markets, and then grow the company. The end goal is to make money for themselves and their investors. Sponsors have their own capital invested in the blank check company, and they will lose their money if no deal is announced. However, if a successful deal is completed, they stand to receive a return that is equal to many multiples of their investment.

While sponsors are highly incentivized to get deals done, it is important for an investor evaluating a blank check company to also assess the sponsor's attributes:

- Their experience, reputation, skill and networking capabilities.
- Their "skin in the game"—i.e., the size of their capital investment in the blank check company.
- Their potential to not only complete a deal in the limited time allotted, but also to achieve a well-regarded business combination likely to increase the price of an investor's common shares, warrants and rights.

Investment Bankers – Large vs. Small

Investment bankers play several important roles. The first is during the IPO stage: Bankers help design the structure of the blank check company and sell shares to the public. Second, they utilize their resources and networks to bring potential merger targets to the attention of the sponsor. Also, they help in completing deals and obtaining shareholder approval.

Larger investment banks are thought to have better resources than smaller banks, so smaller banks will entice blank check company investors by providing more generous structures (better terms on warrants, higher amounts held in trust, etc.) than larger banks.

Alignment of Interests

To align the interests of the bankers with sponsors and investors, bankers' compensation is based on both IPO success and deal completion. Partial compensation is received at the time of the IPO, and the balance is deferred to when a deal is completed. Because investors have the right to redeem shares if they do not like the deal, bankers' compensation should also be tied to the number of public shareholders that opt to remain in the deal.

Small	INVESTMENT BANKER	Big
EarlyBird Capital	Bank	Citigroup
Origo Acquisition	Blank Check Company	Boulevard Acquisition Corp. II
4,200,290	IPO Shares Issued	37,000,000
$42,845,000	IPO Size	$370,000,000
$10.20	Trust	$10.00
1 Share, 1 Warrant, 1 Right	Units	1 Share, 1/2 Warrant

This chart highlights some of the quantitative differences between blank check companies underwritten by large and small investment bankers.

Source: U.S. Security and Exchange Commission, https://www.sec.gov

Case Study: Andina Acquisition and Asymmetric Payoff Ratios

December 1, 2015 Andina Acquisition Corp. 2 completed its initial public offering

Units Issued	**4 million at $10/unit**
Unit Components	• **1 common share** • **1 warrant** to purchase 1-half of one ordinary share at $11.50 • **One right** to receive 1/10th of one ordinary share on completion of a business combination
Completion Period	**21 months** – until September 1, 2017
Lead Underwriter	**EarlyBird Capital**, a smaller investment bank
Management Team Leader	**Julio Torres**, a managing member of Multiple Equilibria Capital. This was the second blank check company that Torres sponsored. He continues to serve as Co-Chief Executive Officer of Andina Acquisition 1.
Initial Amount Placed in Trust	**$10.15 per share**, which guaranteed a return of at least 1.5% even if no deal was completed (at a time when short-term government bonds were yielding close to 0%)
Custodian	**UBS**
Trustee	**Continental Stock Transfer & Trust Co.** (U.S.-based)

December 7, 2015 Units split / Deadline extended / Trust increased to $10.30/unit

The units were now able to be split and the components started trading separately. Shareholders also approved an extension of time required to complete a business combination. The deadline was pushed back to Feb. 1, 2018. In return, the amount held in trust was increased to $10.30 per share.

October 27, 2017 Deal announced / Prices rise

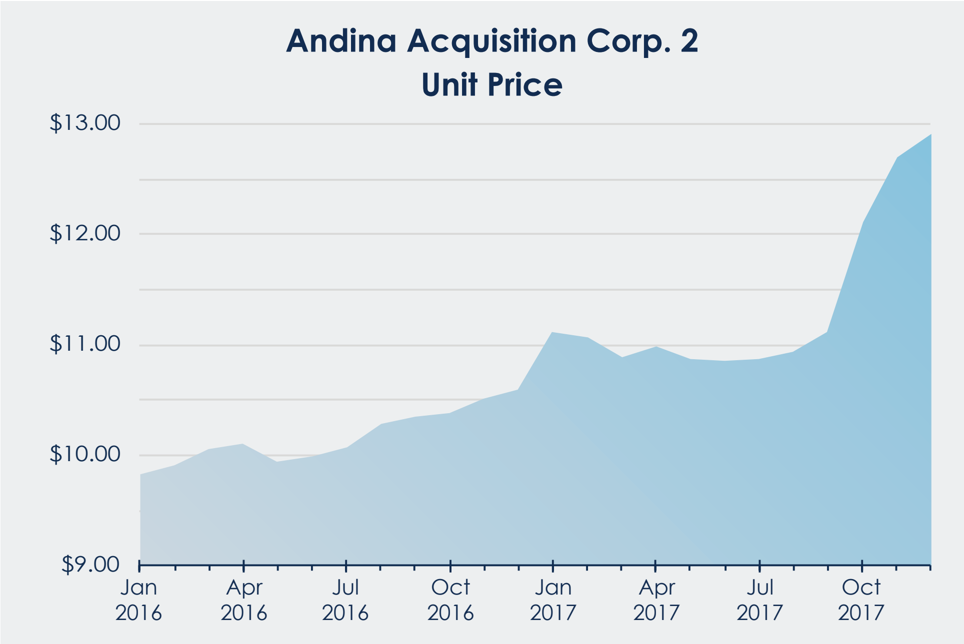
Andina announced a definitive agreement to acquire Tampa-based Lazydays R.V. Center, Inc. and its affiliates from Wayzata Investment Partners LLC for $85 million in cash plus 2.9 million common shares of the combined company.

Lazydays operates the world's largest recreational vehicle ("RV") dealership, located on 126 acres outside Tampa, and also has several regional dealerships. Additionally, the company boasts the largest selection of RV brands in the U.S., featuring more than 2,500 new and pre-owned RVs. The company also operates RV service bays, rental fleets and camp grounds, and employs over 700 people. Lazydays reported $564 million in revenue in 2016 and $25 million in EBITDA.

On news of the business combination, the prices of the warrants and rights on Andina surged.

December 8, 2017 Investor gain = 29%

Andina warrants traded at $1.38 as of December 8, 2017, the rights at $1.28, and common shares at $10.26 per share. The total value of the units, based on the current trading prices of its components is $12.92 per unit. So, an investor in the Andina units at IPO would have earned an investment return of 29 percent.



Andina-2 Prices As of December 8, 2017	
Shares	$10.26
Warrants	$ 1.38
Rights	$ 1.28
Total Unit Price	$12.92
Total Cumulative Return	29.2% (based on initial $10 unit price)

Compare that to what Treasuries returned over this same time period: 0.77 percent. If no deal could be consummated, warrants and rights would have no value and the investor would receive his pro-rata portion of the trust account, or $10.30.

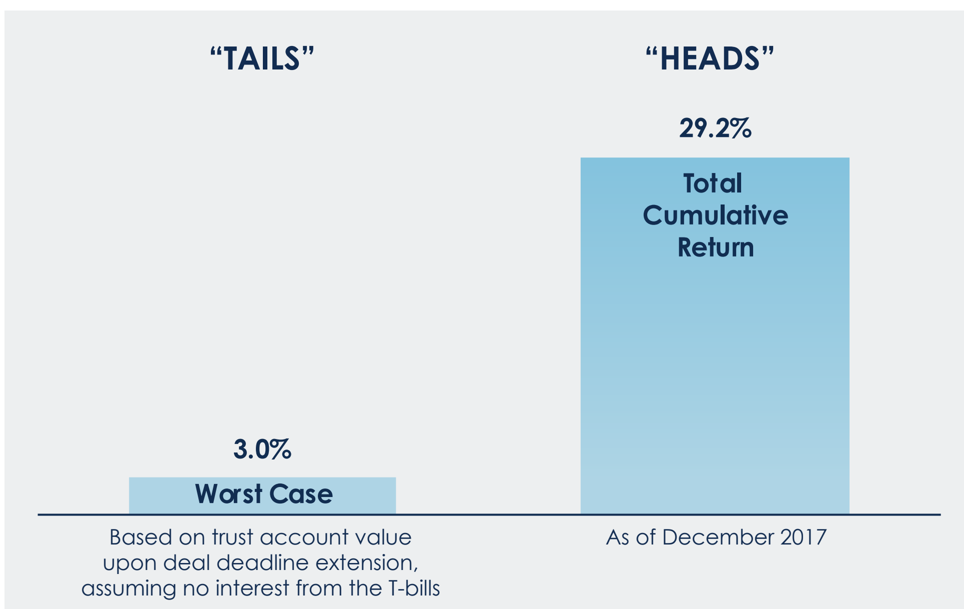
> **"Worst case scenario, this investment would have returned 3 percent – still better than Treasuries."**

Asymmetrical Return Profile

This example clearly illustrates the asymmetric return profile of blank check companies, and how it is skewed to the upside.

- On the downside, one's risk is limited to the cash in the trust account and the interest earned.
- However, the upside potential is unlimited.

On Andina Acquisition-2, the payoff ratio was 9.7 to 1.



We Can Help

In the hands of an experienced advisor, blank check companies are a powerful tool for investors: They have an asymmetric payoff profile that allows for participation in equity-type returns without compromising on safety.

Unfortunately, not only are most investors unfamiliar with blank check companies, they also lack the operational knowledge necessary for properly transacting in this space. We can help. Bulldog Investors has built a reputation over years for generating superior risk-adjusted returns focusing on areas overlooked by most wealth managers.

Bulldog Investors is a leader in the closed-end fund space and a pioneering shareholder activist. We were the first users of methods now regularly employed by other investors. Bulldog Investors has been instrumental in the blank check company space, working closely with sponsors and investment bankers to develop a structure that both safeguards investors' principal while providing quality business operators with access to capital.

If you are looking for a vehicle to safely invest your extra cash or other assets, please contact Steve Samuels at 201-881-7112.

The data presented herein is included for illustrative purposes only. Investors should not assume that investments made on their behalf will be profitable, and may, in fact, result in a loss.