

Bulldog SPAC Update-August 2024

“The worst a SPAC IPO investor will ever do is the IPO purchase price + Interest income if they opt to redeem. And at best, the sponsor team announces a quality deal that results in the share price trading significantly higher than the cash in trust value.”¹

- *Kristi Marvin, SPAC Insider*

Principal Protection with Optionality

Recent market turbulence is an excellent reminder of why SPACs, with a structurally built-in redemption feature, can provide a haven to investors while also serving as excellent cash management tools.

SPAC market prices held up very well in the recent market sell-off. For the first 6 months of 2024 our SPAC strategy returned 2.13%. Since its inception on April 1, 2018, the strategy has returned 9.77% (Table 1) on an annualized basis. Bulldog SPAC SMAs hold a well- diversified, in terms of duration and names, portfolio of SPAC units, common shares and warrants, that is intended to provide excess return opportunities without compromising our prevailing goal of capital preservation. The SPAC SMAs are actively managed and seek to generate returns greater than short-term interest rates on a risk adjusted basis.

Table 1. Bulldog SPAC SMA Composite Performance
As of 6/30/2024

	Cumulative			Annualized			
	3 - Month	YTD	Since Inception	1-Year	3-Years	5-Years	Since Inception April 1, 2018
SPAC Strategy	0.91%	2.13%	79.07%	3.96%	2.65%	10.81%	9.77%

SPAC Resurgence or Head Fake?

With the recent launch of **Cantor Equity Partners (“CEP”)**, a \$100 million SPAC led by Cantor CEO Howard Lutnick, the SPAC IPO count for 2024 hit 25 (Table2). A remarkable achievement, considering that traditional IPOs coming to market have been sporadic at best. There is some logic to what appears at first to be investors’ folly: that there are several relatively large private companies looking to go public, many of which are backed by twitchy venture capital and private equity firms. With traditional IPO markets still shut, SPACS may be the only avenue to a public market listing. As a portfolio manager remarked in a recent Financial Times piece:

“There are over 1300 unicorns out there, and the exit route on both the IPO side and the strategic M&A side has been closed.”²

¹ “SPACs and Stock Market Corrections” by Kristi Marvin, SPAC Insider 8/6/24

² “Funding Surge for blank cheque companies point to SPAC bounceback” by Nicholas Megaw, Financial Times 7/25/24

Table 2. SPAC Listings

Year	IPO Count	Gross Public Proceeds (\$mm)	Avg IPO Size (\$mm)
2024 (YTD)	25	4,411.75	176.47
2023	31	3,847.96	124.13
2022	86	13,430.70	156.17
2021	613	162,502.57	265.09
2020	248	83,379.52	336.21
2019	59	13,608.31	230.65
2018	46	10,751.94	233.74
2017	34	10,048.46	295.54
2016	13	3,499.16	269.17
2015	20	3,902.45	195.12
2014	12	1,749.75	145.81

Source: SPAC Insider

One can, however, forgive investors for being skeptical. Since the start of 2022, more than 350 SPACs have liquidated without completing a deal. While we wait to see how the current crop of SPACs will fare, it is worth noting several factors in their favor:

- ✚ IPO Window is still shut so SPACs are the only available route to market for many private companies
- ✚ SPACs coming to market have repeat sponsors – valuable past experiences in getting deals over the finish line
- ✚ Cheaper valuations currently in private companies
- ✚ Less competition from other SPACs

SPAC Sponsors Spread the Risk

While deal completion can be extremely lucrative for SPAC sponsors, mindful of the large number of SPACs that have liquidated without completing a deal, some sponsors are now trying to spread financial risk. In addition to funding the SPAC’s initial expenses and operations, a SPAC sponsor must also cover costs related to due diligence of a target company and put up “risk capital” to show “skin in the game.” In return, SPAC sponsors are awarded deeply discounted shares that typically gives them ownership of 20% of the SPAC. If no deal is completed, the SPAC sponsor will not only lose its initial outlay, the discounted shares that it received will also be worthless. This risk was again recently driven home, when SPAC veteran Michael Klein announced the cancellation of a previously announced deal. Citing difficult market conditions, the merger between Klein’s **Churchill Capital VII (“CVII”)** and CorpAcq Holdings Ltd was called off. While public shareholders of CVII will still receive \$10.84 per share (current level of cash in trust), promote shares held by the sponsors will lose all value. To protect against this risk, SPAC sponsors are offering investors some of their deeply discounted promote shares in return for investors putting up some of the risk capital.

Table 3. Churchill Capital SPAC Performance

Name	IPO Date	Number of Issued Shares	Tenor	Wt Cov	Comments	Deal Completion Date	Stock Value/Cash in Trust on Deal Completion	Wt Value	Combo Value	Holding Period Days	Total Rtn %	IRR %
Churchill Capital	9/7/2018	69,000,000	24	0.5	Deal Completed with Clarivate (CLVT)	5/13/2019	\$13.34	\$3.48	\$15.08	248	50.80%	83.05%
Churchill II	6/27/2019	69,000,000	24+3	0.33	Completed Deal with Skillsoft (SKIL)	6/11/2021	\$10.10	\$2.44	\$10.91	715	9.13%	4.56%
Churchill III	2/14/2020	110,000,000	24+3	0.25	Completed deal with Multiplan (MPLN)	10/8/2020	\$10.03	\$1.97	\$10.52	237	5.22%	8.16%
Churchill IV	7/30/2020	207,000,000	24+3	0.2	Completed deal with Lucid (LCID)	7/23/2021	\$24.25	\$11.74	\$26.60	358	165.98%	171.12%
Churchill V	12/16/2020	50,000,000	24+3	0.25	Liquidated	10/17/2023	\$10.40	\$ -	\$10.40	1035	4.00%	1.39%
Churchill VI	2/12/2021	55,200,000	24+3	0.2	Liquidated	12/4/2023	\$10.49	\$ -	\$10.49	1,025	4.90%	1.72%
Churchill VII	2/12/2021	138,000,000	24+3	0.2	Liquidated	8/16/2024	\$10.84	\$ -	\$10.84	1,281	8.40%	2.32%
AltC Acquisition	7/8/2021	50,000,000	24+3	0	Completed deal with Oklo (OKLO)	5/7/2024	\$14.34	\$ -	\$14.34	1,034	43.40%	<u>13.57%</u>
											Avg IRR	35.74%

Source: SPAC Research and Bloomberg

TAKEAWAY

A typical SMA account at Bulldog will hold between 15 and 20 SPAC names. To hit our long-term bogey of mid to high single digit returns, every SPAC held in our portfolios does not have to complete a business transaction that is a home run, or even complete a business combination at all. It is instructive to study returns on SPAC deals of a serial sponsor over an entire SPAC cycle to see why. Table 3 shows returns on every Churchill Capital SPAC that either completed a business combination or liquidated (returns are calculated from IPO date to merger completion date). Churchill Capital is led by Chairman and CEO Michael Klein, a former director of Credit Suisse and former Chairman and Co-CEO of Citi Markets and Banking. Churchill sponsored SPACs have completed 5 deals, while 3 additional SPACs have liquidated without being able to complete a business transaction. In May this year, Churchill launched its 9th SPAC, which is currently in search of a potential merger target.

As a reminder, Bulldog never holds a SPAC after deal completion. With our pre-merger SPAC strategy, it's a heads we win, tails we don't lose scenario. Worst case, we expect to get our investment back with interest. And with money markets currently paying about 5%, it's not a bad place to wait as sponsors work to find attractive acquisitions. Please reach out with any questions.

Rajeev Das

(201) 881-7103

rdas@bulldoginvestors.com

Bulldog Investors

PROTECT AND GROW

Table 1 Disclosure: The table above is composite performance information for all SMAs participating in Bulldog Investors' SMA SPAC Strategy. The following factors were taken into account when calculating composite performance:

- Performance is presented net of all fees (including a model annual management fee of 1%) and expenses.
- Each participating SMA is included in the composite at the beginning of the quarter following the first full quarter after the SMA is opened.
- SMAs that are closed are removed from the composite on the last day of the full quarter during which the SMA was open. The performance history of such SMAs remains in the composite performance.
- Performance is asset-weighted.
- SMAs maintained on behalf of personnel of Bulldog Investors are not included in the composite. As a result of personal trading restrictions imposed by Bulldog Investors on its personnel, such SMAs do not resemble the portfolios of other SMAs in the composite.
- Cash flows into, and out of, each SMA in the composite are accounted for.

This performance information has been calculated by SS&C Technologies. It is not intended to suggest that the performance of every SMA in Bulldog Investors' SPAC Strategy will achieve the same or similar results. Different types of investments involve varying degrees of risk, including the loss of money invested. Therefore, it should not be assumed that the performance of any specific investment or investment strategy will be profitable or be suitable for your account and may, in fact, result in a loss. Results for SMAs managed by Bulldog Investors are varied and will vary in the future.