

SPAC Market & Hedge Funds

February 2021

Key Takeaways:

SPACs Market

- Special Purpose Acquisition Companies (SPACs) offer an alternative avenue for private companies to get listed on US exchanges, avoiding the lengthy and rigorous process required for an Initial Public Offering. We expect this market to continue to co-exist with the IPO and Direct Listing processes although the recent spike in volume and large retail involvement could spark greater regulatory oversight ([See Chart 2](#)). For example, the IPO process requires a firm to post positive earnings for at least the last three years before contemplating a public listing. This requirement does not exist for SPACs, opening a way for currently cash-burning, “hyper-growth” sectors to pursue a listing without tangible earnings. Given the large retail footprint, regulatory agencies could act on investor protection grounds. The average SPAC size has also grown and is pursuing larger targets ([See Chart 5](#)).
- The strong performance seen in the SPAC market echoes the frenzy seen in recently IPO-ed equities ([See Chart 1](#)). To a large extent, the awakening of US retail traders since the onset of the Covid-19 pandemic has contributed to the extreme risk appetite witnessed in recent months. This behavior is certainly reminiscent of past “bubble” episodes, although it is unclear to which extent historical parallels can apply to the current situation.
- The behavior of SPAC issues also suggests greater speculative activity. For instance, the strong performance of SPACs before any acquisition announcement has been made is unusual, by historical standards ([See Chart 3](#)).
- In the absence of an exogenous catalyst, it is likely the SPAC market will continue to strongly correlate with investors’ risk appetite. As it gains a critical mass, the prospect of greater regulatory oversight increases however and could limit the future volume of SPACs, compared to recent trends. Finally, greater volume may also lead to lower quality acquisitions and may dampen investors’ appetite for these structures. So far, the acquisition time has been shorter than in the past suggesting sponsors do not have trouble finding targets ([See Chart 6](#)).

Hedge Funds Trading of SPACs

- Hedge funds have devised strategies to extract value from the growth of the SPAC market. Two strategies have taken exposure to the asset class: first, convertible arbitrage and relative value managers and second, event driven funds. Looking at trading volume data available from sell-side desks, hedge funds represent only a limited share of turnover (15%) versus retail traders at 40% ([See Chart 9](#)). However, ownership data suggests hedge funds are a larger player in the asset class. Tracking the largest holders, we find that hedge funds own upward of 20% of the asset class and probably as much as 30% ([See Table 1](#)). In addition, hedge funds are likely a much larger share of the SPAC warrants market although ownership data is not readily available to confirm. In dollar terms, the largest players owned, as of December 31st, close to \$30 billion worth of SPACs.
- Considering the specific features of the SPAC market (with a trust value of \$10 secured by T-bills before the acquisition, an amount that could therefore be considered not “at-risk”), we estimate that total net asset value “at-risk” for the hedge fund industry is around \$6-10bn. This size is not systemic for the industry but could present meaningful risks for individual hedge funds. In our analysis, around twenty hedge funds have been actively involved – at significant size ([See Table 1](#)). For SPACs that have closed on acquisitions, the fund’s exposure may be reduced by delta-hedging of the warrants.

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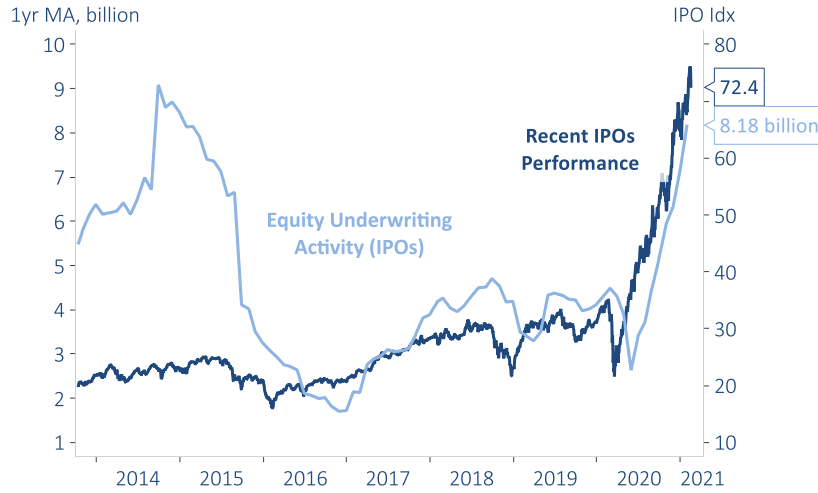
- SPACs have not been a major direct contributor to the performance of the hedge fund industry, on aggregate. That said, the asset class has proved to be a significant driver of performance for the few hedge funds that have actively pursued relative value or directional trading opportunities in the asset class. We believe the top ten players listed in Table 1 have generated several billion dollars of profit – representing a decent share of this universe’s recent performance.
- Thinking in factor terms, relative value strategies in SPACs can offer exposure to the upside volatility seen in “growth” equities with limited capital at risk – if exposure to SPACs trading well-above the \$10 theoretical floor is appropriately risk-managed. SPAC volumes are concentrated in “hyper growth” industries ([See Chart 10](#)). The risk in the funds’ long exposure to warrants is limited to the premium spent but can go to zero, if the SPAC fails to identify a target or the target equity price fails to move above the typical \$25 strike (although the five-year warrant maturity would cushion the PnL impact, in this scenario).
- The funds can leverage strong sell-side relationships to secure sizeable allocations to deals backed by strong sponsors, with warrants issued at significant discounts to the relevant industry benchmarks implied volatility. Industry contacts report discounts of 50-70 volatility points relative to the implied volatility observed in related industry benchmarks.
- Portfolio-wide exposure to “crowded” SPAC names ([See Table 4](#)), trading well-above the \$10 theoretical floor should be monitored so losses remain within a portfolio’s tolerance. Only a few SPACs do trade significantly above the theoretical floor, well ahead of any acquisition announcements, typically thanks to the strong reputation from the sponsor ([See Chart 11](#)) and exuberant retail behavior. Directional long exposure to SPACs trading well-above \$10 and ahead of any acquisition announcements is a more speculative strategy that should be reconciled with the fund’s investment strategy and focus.
- Relative value funds have, by and large, diversified exposure across many names, mitigating idiosyncratic sponsor risk ([See Table 2](#)). Based on December 31st positions as reported through 13F filings and December 31st prices, hedge funds have also concentrated exposure to SPACs trading below \$11 ([See Table 6](#)). These SPACs trade close to theoretical bond floor (guaranteed by T-bills) and therefore limit the fund’s actual “at-risk” exposure. Discipline in taking profits for names running well above the bond floor without any acquisition announcement is important in maintaining an asymmetric risk/return profile when trading SPAC. Hedge funds have kept limited exposure to SPACs where an acquisition has been announced ([See Table 5](#)).
- Stronger investor appetite has started to affect pricing. Sponsors have gained greater bargaining power, and this has translated into lower warrants allocations in the most recent deals ([See Chart 8](#)), and pricing is also gradually becoming less attractive. As the asset class gains critical mass and attracts greater arbitrage capital, we can expect the performance hedge funds can harvest from SPACs to moderate.
- In summary, we see SPAC as offering an attractive new playground for relative value managers able to benefit from the upside volatility witnessed in “hyper-growth”, retail-dominated industries. For directional strategies, the asset can offer high-octane exposure to “growth”, but risk/reward and crowding should be carefully monitored.

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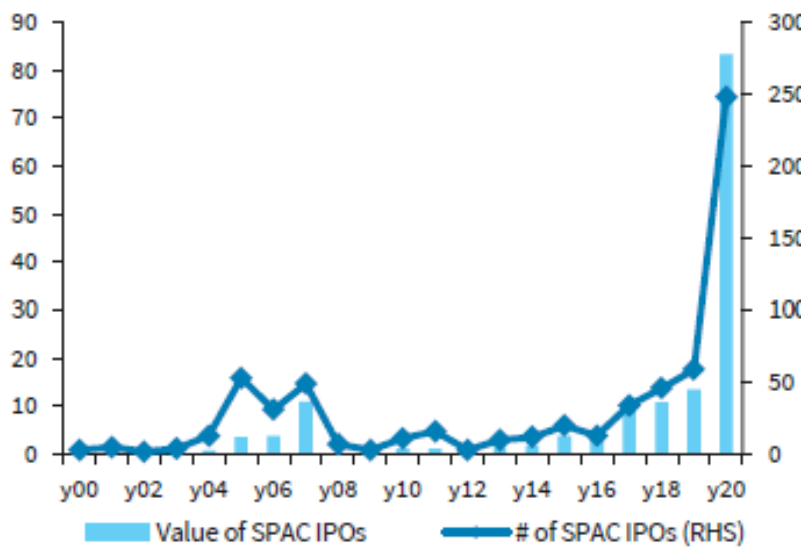
Appendix: Charts & Data Tables

Chart 1: US IPO Issuance and Performance of Recently IPO-ed Equities



Source: Investcorp-Tages

Chart 2: SPAC Issuance Volume

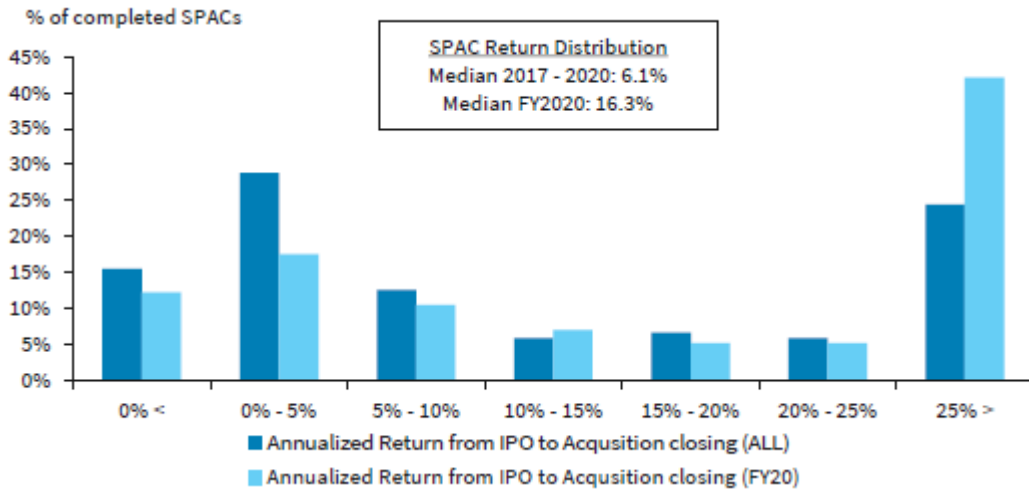


Source: Barclays

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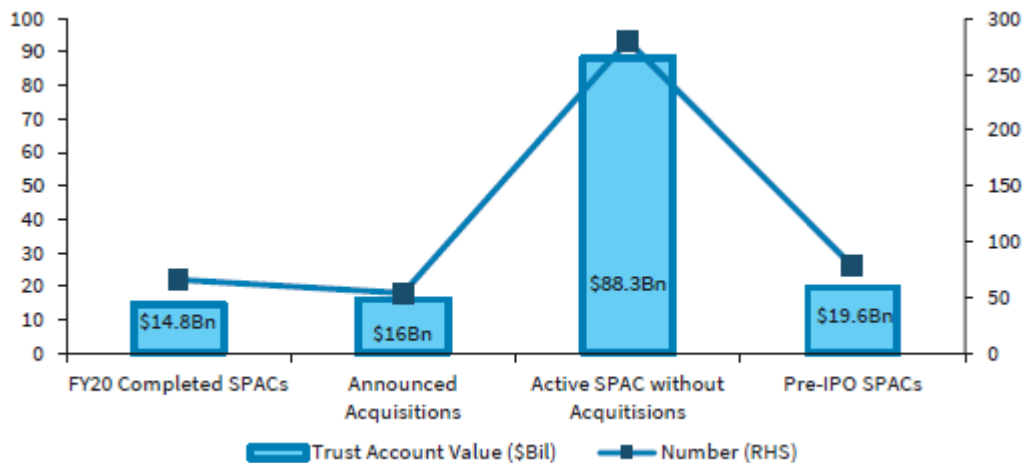
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Chart 3: SPAC Return Distribution from IPO to Acquisition Closing



Source: Barclays

Chart 4: SPAC Value by Lifecycle Stage



Source: Barclays

Chart 5: SPAC Trust Size and Target Size

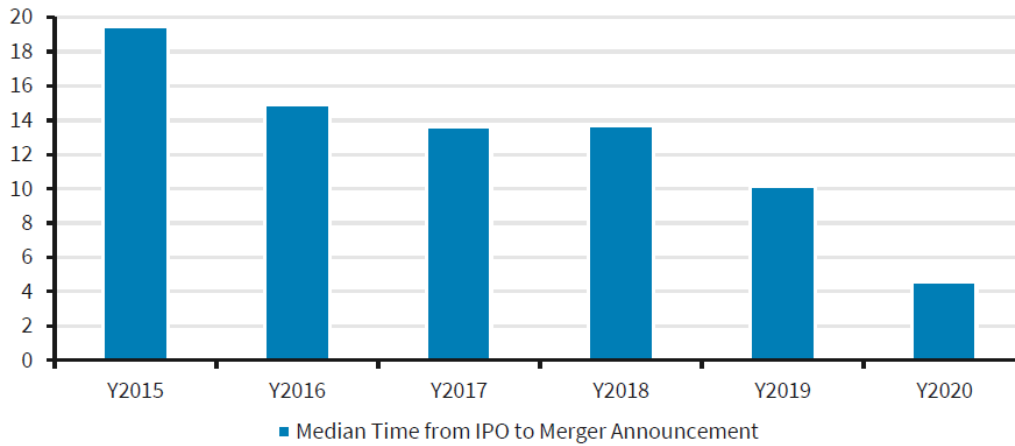


Source: Barclays

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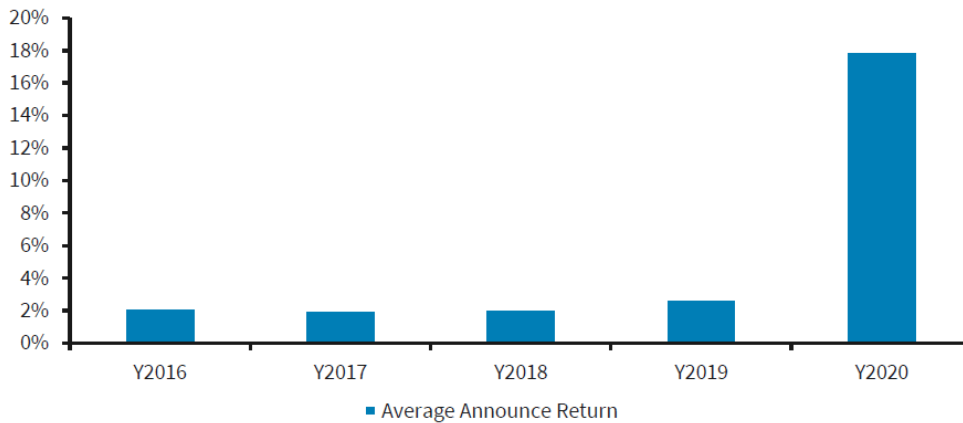
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Chart 6: Median Time from SPAC IPO to Acquisition Announcement



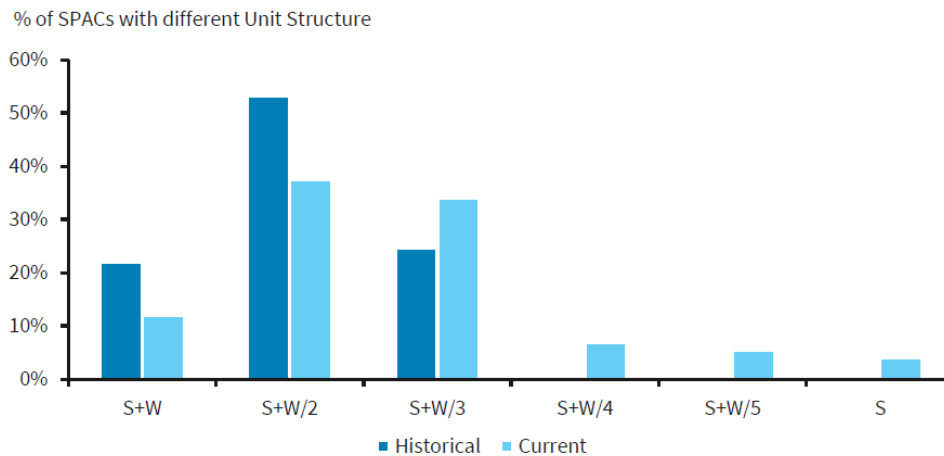
Source: Barclays

Chart 7: Average Performance on Acquisition Announcement



Source: Barclays

Chart 8: Relative Weight of Warrants to Stock Units: Historical vs Current Environment

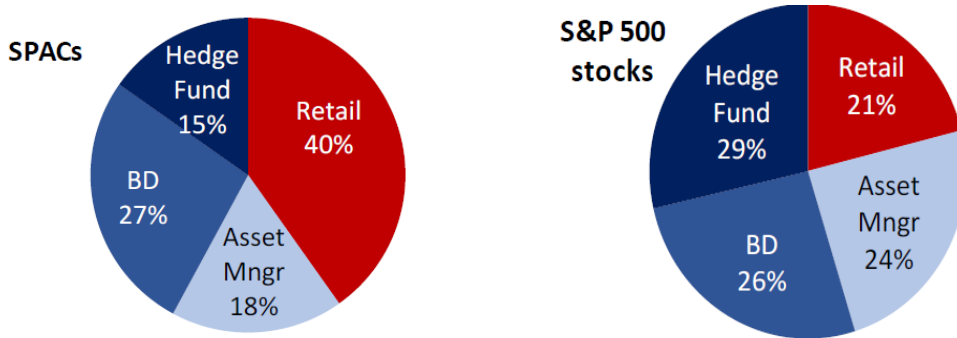


Source: Barclays

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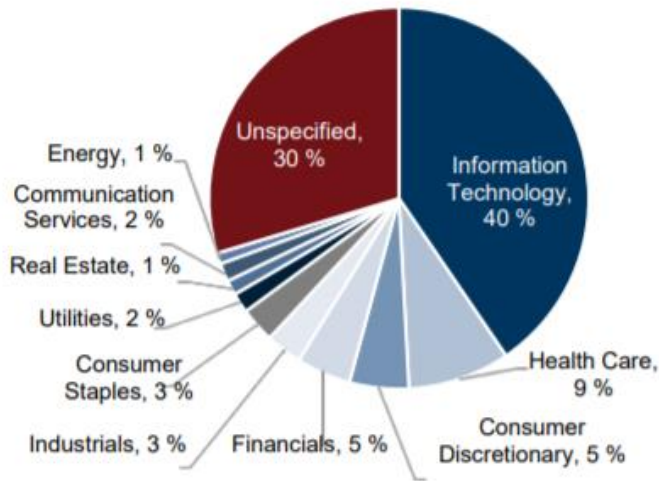
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Chart 9: Breakdown of Trading by Client Type



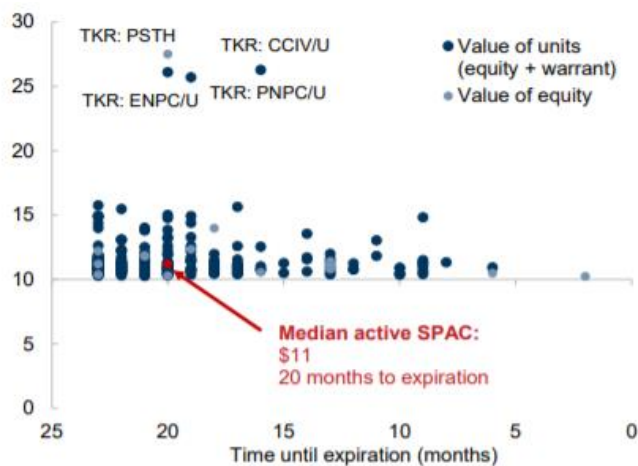
Source: BAML

Chart 10: SPAC Volume by Sector



Source: Goldman Sachs

Chart 11: SPAC Prices Distribution on Time Until Expiration



Source: Goldman Sachs

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Table 1: SPAC Exposure – Key Hedge Fund Investors & Peers (NAV in \$m)

Fund	Strategy	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Millennium	Multi	582	833	1,063	2,765	4,635
Magnetar	Multi	647	773	1,042	2,247	3,228
BlueCrest	Multi	532	382	548	999	1,857
Linden	CB Arb	617	446	568	1,221	1,819
Aristeia	CB Arb	12	20	58	451	1,685
Citadel	Multi	1	13	10	218	1,620
Polar	Event Driven	2,395	746	953	1,500	1,500
Hudson Bay	Multi	373	635	784	1,094	1,094
Alyeska	L/S	99	146	250	548	1,083
Radcliffe	Event Driven	1	143	218	495	981
Moore	Multi	29	51	121	379	766
HBK	Multi	198	213	276	490	764
Empyrean	Event Driven	13	12	35	208	704
Shaolin	CB Arb	324	339	379	558	648
Omni	Event Driven	101	247	206	410	602
Third Point	Event Driven	216	209	213	151	539
Taconic	Event Driven		6	54	277	488
Tenor	CB Arb	160	186	196	380	487
Tiedman	Event Driven			5	521	478
Governors	Event Driven	210	238	293	420	432
Schonfeld	Multi	40	52	146	201	424
Basso	Event Driven	384	350	302	270	374
Wolverine	Multi	241	251	260	263	326
Highbridge	Multi	0			55	285
Ratan	L/S	7	7	22	176	266
Weiss	Multi	31	29	11	33	62
Kamunting	CB Arb				8	40
DLD	CB Arb				3	28
Advent	CB Arb					0

Source: Investcorp-Tages

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Table 2: Number of individual SPAC positions – Key Hedge Fund Investors & Peers

Fund	Strategy	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Millennium	Multi	82	119	130	238	456
Citadel	Multi	8	22	23	67	397
Radcliffe	Event Driven	10	67	101	158	309
Magnetar	Multi	70	88	116	193	303
Linden	CB Arb	102	122	127	185	302
Wolverine	Multi	152	168	177	206	297
Tenor	CB Arb	75	97	97	175	262
Polar	Event Driven	425	166	159	213	213
BlueCrest	Multi	79	83	93	133	204
Shaolin	CB Arb	91	113	112	160	199
Moore	Multi	14	18	34	92	198
Basso	Event Driven	198	204	182	165	186
Schonfeld	Multi	3	7	13	68	182
Hudson Bay	Multi	105	162	132	177	177
HBK	Multi	58	65	64	108	175
Aristeia	CB Arb	5	12	19	98	172
Tiedman	Event Driven			4	76	149
Omni	Event Driven	13	33	33	90	140
Taconic	Event Driven		2	10	63	136
Alyeska	L/S	21	21	29	69	125
Governors	Event Driven	27	32	35	59	78
Weiss	Multi	7	9	9	19	65
Empyrean	Event Driven	10	10	7	13	57
Ratan	L/S	1	2	5	35	46
Kamunting	CB Arb				4	28
Highbridge	Multi	2			7	22
Third Point	Event Driven	3	3	3	5	20
DLD	CB Arb				2	16
Advent	CB Arb					1

Source: Investcorp-Tages

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Table 3: Top 50 SPACs by Hedge Fund Ownership

Name	Market Cap	Last Price	In Hedge Fund Ownership Last Quarter	Estimated Capital at Risk (\$m)
CHURCHILL CAPITAL CORP IV-A	13636	52.7	18	11049
THAYER VENTURES ACQUISITION	225	11.17	14	24
CF ACQUISITION CORP IV	652	10.94	13	56
FOLEY TRASIMENE ACQ-CLASS A	1401	10.83	12	107
CC NEUBERGER PRINCIPAL-CL A	1203	11.09	12	118
GS ACQUISITION HOLDINGS-A	1148	12.25	12	211
FTAC OLYMPUS ACQ CORP-A	1302	13.42	11	332
VY GLOBAL GROWTH-CL A	870	12.1	11	151
CHP MERGER CORP-CLASS A	399	10.65	11	24
CRESCENT ACQUISITION CORP-A	319	10.22	11	7
7GC & CO HOLDINGS INC	292	10.96	11	26
EDTECHX HOLDINGS ACQUISITION	147	10.67	11	9
PERSHING SQUARE TONTINE -A	6590	32.95	10	4590
COHN ROBBINS HOLDINGS-CL A	1153	11.14	10	118
SOCIAL CAPITAL HEDOSOPH- A	932	16.21	10	357
HEALTH ASSURANCE ACQUISITION	803	15.43	10	283
BOWX ACQUISITION CORP-CL A	654	10.84	10	51
DRAGONEER GROWTH OPPORT-CL A	448	12.7	10	95
ACKRELL SPAC PARTNERS I CO	186	10.71	10	12
FOLEY TRASIMENE ACQUISITI-A	3099	16.9	9	1265
JAWS ACQUISITION CORP-CL A	1334	15.47	9	472
VG ACQUISITION CORP-A	938	14.75	9	302
GO ACQUISITION CORP-CLASS A	762	10.6	9	43
CF FINANCE ACQUISITION II-A	711	11.18	9	75
TORTOISE ACQUISITION CORP A	691	16.02	9	260
TPG PACE TECH OPPORTUNITI-A	680	12.09	9	118
TWC TECH HOLDINGS II CORP-A	662	11.04	9	62
NEXTGEN ACQUISITION CORP-CLA	583	12.43	9	114
FUSION ACQUISITION CORP-A	532	12.16	9	95
FALCON CAPITAL ACQUISITIO-A	489	11.35	9	58
YUCAIPA ACQUISITION CORP-A	460	10.66	9	28
PRIME IMPACT ACQU I -CL A	425	10.5	9	20
CAPSTAR SPECIAL PURPOSE AC-A	371	10.76	9	26
ZANITE ACQUISITION CORP	366	14.29	9	110
OAKTREE ACQ CORP II - CL A	343	10.96	9	30
DFP HEALTHCARE ACQUISIT-CL A	315	10.96	9	28
SOCIAL CAPITAL HEDOSOPHI V-A	2445	24.3	8	1439
SOCIAL CAPITAL HEDOSOPH VI-A	2171	15.1	8	733
REINVENT TECHNOLOGY-CLASS A	1354	15.7	8	492
APOLLO STRATEGIC GROWTH-CL A	1123	10.88	8	91
DRAGONEER GROWTH OPPORTUN-A	1019	11.81	8	156
REDBALL ACQUISITION CORP - A	785	10.92	8	66
HORIZON ACQUISITION COR-CL A	743	10.92	8	63
TREBIA ACQUISITION CORP-A	707	10.93	8	60
HUDSON EXECUTIVE INVEST-CL A	592	11.44	8	75
ASCENDANT DIGITAL ACQUISIT-A	570	11.005	8	52
D8 HOLDINGS CORP-A	451	10.45	8	19
SUSTAINABLE OPPORTUNITIES-A	431	11.48	8	56
VECTOR ACQUISITION CORP-A	398	10.48	8	18

Source: Investcorp-Tages

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Table 4: Top SPACs Trading Above \$10

Name	Market Cap	Last Price	In Hedge Fund Ownership Last Quarter	Estimated Capital at Risk (\$m)
CHURCHILL CAPITAL CORP IV-A	13636	52.7	18	11049
FTAC OLYMPUS ACQ CORP-A	1302	13.42	11	332
PERSHING SQUARE TONTINE -A	6590	32.95	10	4590
SOCIAL CAPITAL HEDOSOPH- A	932	16.21	10	357
FOLEY TRASIMENE ACQUISITI-A	3099	16.9	9	1265
JAWS ACQUISITION CORP-CL A	1334	15.47	9	472
VG ACQUISITION CORP-A	938	14.75	9	302
SOCIAL CAPITAL HEDOSOPHI V-A	2445	24.3	8	1439
SOCIAL CAPITAL HEDOSOPH VI-A	2171	15.1	8	733
REINVENT TECHNOLOGY-CLASS A	1354	15.7	8	492
DESKTOP METAL INC-A	7196	31.74	7	4929
TPG PACE BENEFICIAL FIN-CL A	1281	28.43	6	831
RIBBIT LEAP LTD - CLASS A	896	15.32	6	311
ARCLIGHT CLEAN TRANSITION-A	865	24.95	6	519
SKILLZ INC	14714	39.79	5	11016
DECARBONIZATION PLUS ACQU-A	4224	15.75	5	1542
ROMEO POWER INC	2030	16.01	5	762
STAR PEAK ENERGY TRANSIT- A	1810	47.19	5	1427
CM LIFE SCIENCES INC-CLASS A	1355	24.49	4	802
GOLDEN NUGGET ONLINE GAMING	803	17.89	4	354
OPENDOOR TECHNOLOGIES INC	18904	32.75	3	13132
DANIMER SCIENTIFIC INC	4542	52.98	3	3684
CANOO INC	3933	16.69	3	1577
NORTHERN GENESIS ACQUISITION	944	23.63	3	544
APARTMENT INCOME REIT CO	6297	42.39	2	4812
RUSH STREET INTERACTIVE INC	3918	19.13	2	1870
PROG HOLDINGS INC	3494	51.72	2	2818
XL FLEET CORP	2610	19.87	2	1297
TATTOOED CHEF INC	1760	24.6	2	1045
UTZ BRANDS INC	1979	26	1	1218

Source: Investcorp-Tages

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Table 5: Share of Funds' SPAC Portfolio Where an Acquisition Has Been Announced

Fund	Strategy	Acquisition Announced?	
		No	Yes
Advent	CB Arb	100%	0%
Alyeska	L/S	76%	24%
Aristeia	CB Arb	96%	4%
Basso	Event Driven	91%	9%
BlueCrest	Multi	89%	11%
Citadel	Multi	81%	19%
DLD	CB Arb	87%	13%
Empyrean	Event Driven	79%	21%
Governors	Event Driven	77%	23%
HBK	Multi	80%	20%
Highbridge	Multi	65%	35%
Kamunting	CB Arb	75%	25%
Linden	CB Arb	81%	19%
Magnetar	Multi	77%	23%
Millennium	Multi	83%	17%
Moore	Multi	77%	23%
Omni	Event Driven	90%	10%
Radcliffe	Event Driven	88%	12%
Ratan	L/S	72%	28%
Schonfeld	Multi	83%	17%
Shaolin	CB Arb	94%	6%
Taconic	Event Driven	84%	16%
Tenor	CB Arb	87%	13%
Third Point	Event Driven	72%	28%
Tiedman	Event Driven	88%	12%
Weiss	Multi	51%	49%
Wolverine	Multi	89%	11%

Source: Investcorp-Tages

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Table 6: Breakdown of Funds SPAC Exposure by SPAC Price (in \$m, on Dec 31st prices & positions)

Fund	Strategy	Aggregate Position in SPAC Trading (in \$m):				
		Below 10	Between 10 & 11	Between 11 & 15	Between 15 & 30	Above 30
Advent	CB Arb	0	0	0	0	0
Alyeska	L/S	2	321	157	10	0
Aristeia	CB Arb	6	1150	178	0	0
Basso	Event Driven	16	305	6	0	0
BlueCrest	Multi	13	783	282	0	0
Citadel	Multi	8	951	106	0	0
DLD	CB Arb	0	21	4	0	0
Empyrean	Event Driven	4	303	113	0	0
Governors	Event Driven	4	184	61	0	0
HBK	Multi	10	457	94	2	0
Highbridge	Multi	4	126	15	0	0
Kamunting	CB Arb	0	17	3	0	0
Linden	CB Arb	61	1068	149	0	0
Magnetar	Multi	33	1341	291	2	0
Millennium	Multi	108	2230	426	0	0
Moore	Multi	12	358	99	4	0
Omni	Event Driven	6	382	48	0	0
Radcliffe	Event Driven	79	632	34	0	0
Ratan	L/S	6	144	12	0	0
Schonfeld	Multi	0	268	30	2	0
Shaolin	CB Arb	21	427	48	0	0
Taconic	Event Driven	11	294	22	0	0
Tenor	CB Arb	9	340	35	0	0
Third Point	Event Driven	0	128	170	0	0
Tiedman	Event Driven	7	315	35	3	0
Weiss	Multi	0	26	2	0	0
Wolverine	Multi	3	228	12	0	0
Grand Total	423.086	423	12797	2432	22	0

Source: Investcorp-Tages

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