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SPACs: Investment considerations

Investment strategy insights

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- A Special Purpose Acquisition Company (SPAC) is a "blank-check" company formed by a sponsor that intends to use the proceeds of its IPO to acquire an undetermined business.
- SPACs have complex governance and compensation structures, and risks and expected returns that evolve over their life-cycle.
- Consequently, only sophisticated investors should consider investing in SPAC IPOs, which are more akin to a trading strategy than a long-term investment. Otherwise, investors should wait until they can evaluate the merger target before buying SPAC shares.
- Average SPAC returns post-merger have been underwhelming, though with wide dispersion. That warrants caution, as does current market conditions for SPACs getting frothy.

One of the unexpected market developments in 2020 is the emergence of Special Purpose Acquisition Companies (SPACs) as a capital raising trend. The number of SPAC offerings this year and amount of capital they've raised far exceeds previous highs. Consequently, many investors are unfamiliar with them, even as they're becoming an alternative to a traditional IPO as a means for private companies to become publicly listed.

A SPAC is a shell company created with the purpose of acquiring an actual operating company. They raise capital for this acquisition through a public listing on an exchange where investors get both shares and warrants. Once an acquisition is made the SPAC usually changes its name and ticker to align with the target company's business. At that point SPAC investors are shareholders in a publicly-listed company. Thus, SPACs have attributes of private equity, IPOs, and small/mid-cap equities during their life-cycle.

SPACs are complex investments, in part because of their life-cycle evolution, but primarily because of complicated governance and compensation structures that can be opaque. They're also initially an investment in the skills of the sponsor team that created the SPAC, not in an actual operating company. Consequently, we recommend that only sophisticated investors capable of conducting rigorous due diligence on the sponsor and deal terms, and have a high risk tolerance, should consider an investment in SPACs.

For investors who meet that criteria, our assessment is that investing in a diversified portfolio of SPACs at the IPO offers the best risk-return trade-off because of the downside protections (see Investor Protections pg. 3) and upside optionality. This participation in SPACs should be thought of as an investment trading strategy rather than a long-term investment in an asset class. At the IPO there's no information about the eventual acquisition target and the optionality of the SPAC structure is analogous to event-driven and relative value hedge fund strategies. Based on this logic SPACs best fit within the alternative investments sleeve of an overall portfolio, though any allocation should be small because they're still an emerging asset class with a short track record.

Investors who don't participate in the SPAC IPO should wait until the merger target is at least announced and can be evaluated before deciding whether to buy shares. That decision process should be the same as it is for any other public stock. Another consideration is SPAC performance history. SPAC returns post-merger completion have been poor on average and worse than the overall market, though with wide dispersion. This fact, coupled with the risk that SPACs could suffer from speculative frenzy, suggests investors should proceed cautiously with any investments.

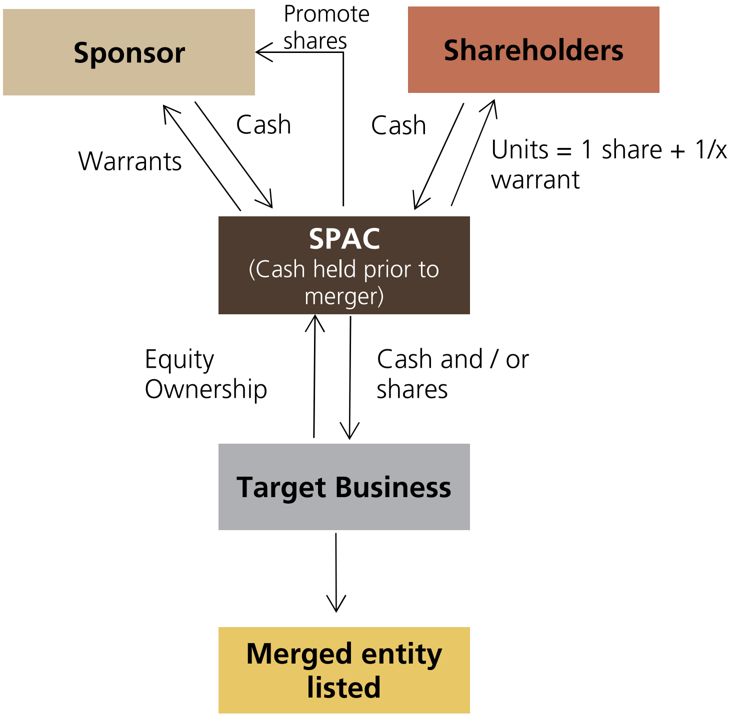
To provide context for the SPAC investment decision, we first review the main properties of these investment vehicles, why they've become popular now, and their investment returns at different stages of the life-cycle.

SPACs 101

A SPAC is a “blank-check” company formed by a sponsor with the intention to acquire an undetermined business of which the sponsor can add value based on their expertise. The SPAC is brought to the public market and traded on OTC or listed exchanges in order to raise the necessary capital for the acquisition. The acquisition target is unknown at the time of the SPAC offering, or IPO. The participants and general structure are illustrated in Fig. 1, while the SPAC life-cycle is shown in Fig. 2. The main properties of a typical SPAC are as follows.

Offering securities: The typical issuing units offered in the SPAC IPO are comprised of 1 share of common stock and a fraction of a warrant (often 1/2 or 1/3). The two securities remain together and then separate usually around 50 days after the initial offering. SPACs are usually priced at an initial value of USD 10 per share. Warrants give the investor the right but not the obligation to buy additional stock at a pre-set strike price. This price is usually set at USD 11.50, with a USD 18 forced exercise price that caps the warrant value. The warrant has a 5-year term and can be an important enhancement to an investor's total return.

Fig. 1: Participants and structure of SPACs



Source: UBS, as of 22 September 2020

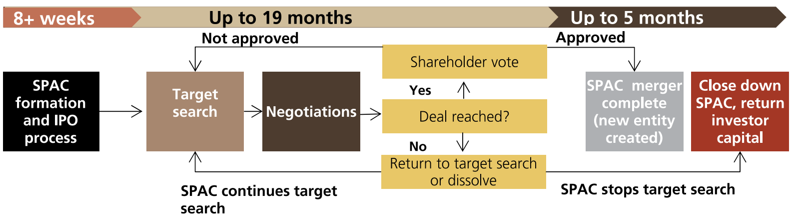
Investor rights: Because SPAC shareholders don't know ahead of time the specific acquired company, they receive the right to evaluate and vote on the purchase. Usually two days before the votes are tallied, shareholders are given the option to retain their shares or redeem them for a *pro rata* portion of cash held in the trust. In most cases, this is a return of their USD 10 per share investment and investors can retain their warrants or sell them. The SPAC needs to complete an acquisition within two years or the capital must be returned to investors, although it is possible to file for an extension.

Investor protections: SPACs have audit committees that serve as a governance structure. Some SPACs have restrictions in place that help to align the interests of shareholders and sponsors. This may include restrictions on the ability to transfer or sell founder shares until a specified time period following the initial business combination or only if the stock price appreciates to a specified value. These protections and the redemption option prior to the merger limit the downside during the first stage after the IPO.

Sponsor compensation: The SPAC sponsor is typically granted a "promote" equal to 20% of the outstanding equity and warrants. The promote is not contingent upon meeting any financial targets. However, the sponsors of some recent SPACs have put their promote into an earn-out that is only received if the company achieves certain performance objectives, further aligning the financial incentives of the sponsor and shareholders. The sponsor also provides at-risk capital to the SPAC to cover underwriting fees and costs to undertake an acquisition, and in return receives warrants in addition to the promote shares.

Acquiring target companies: Sponsors drive the process for selecting a business combination and negotiating a non-binding term sheet. Depending on the size of the transaction, the sponsor may bring in new outside investors to raise a PIPE (private investment in public equity). The transaction is then publicly announced and an 8-K is filed. There is often complete turnover among the shareholder base from when the deal is announced to the closing of the acquisition (e.g., from merger arbitrage hedge funds to fundamental investors). Post-merger, most SPACs historically change both their name and trading symbol to reflect the identity of the target company.

Fig. 2: Typical SPAC life-cycle



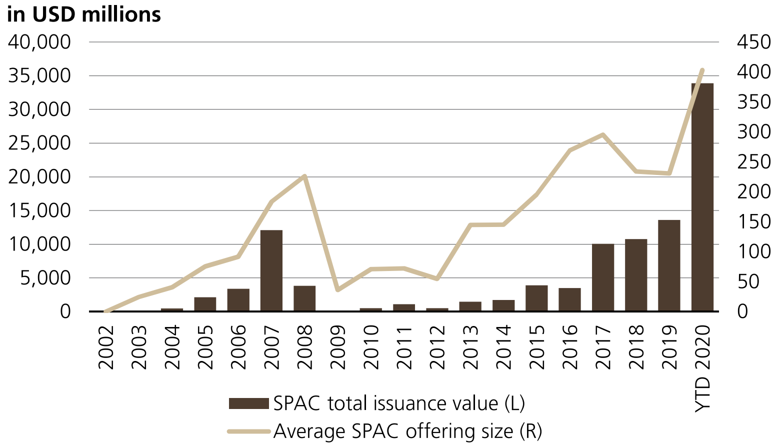
Source: PWC, UBS

SPAC supply

SPAC popularity has ebbed and flowed since they were first introduced, but they're experiencing a boom in 2020 (Fig. 3). From 2005-2008, total issuance volume generally ranged between USD 2-4 billion, with a spike to USD 12 billion in 2007. From 2009-2016, SPAC activity was relatively low, though steadily rose towards USD 3.5 billion in 2016. Over 2017-2019 deal activity recovered to USD 12-13 billion per year. Issuance has nearly tripled those levels in 2020, with a record USD 33 billion raised YTD (as of Aug 2020).

The average SPAC offering size has climbed steadily with the total issuance volume. Since 2016 the average offering size has been about USD 260 million. This has increased sharply in 2020 to USD 403 million, which is partially attributable to large profile raises such as the USD 2 billion SPAC for Churchill Capital and the USD 4 billion raise for Pershing Square. Completed SPACs currently searching for acquisitions exceed USD 38 billion.

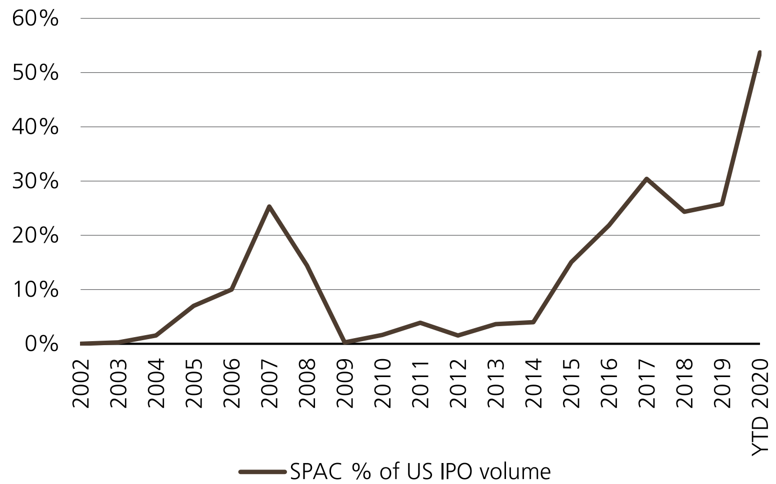
Fig. 3: SPAC issuance has greatly increased in 2020
Issuance volume by total value and average offering size



Source: SPAC Insider, UBS, as of 10 September 2020

SPACs growing popularity means that they comprise an increasing share of total US IPO volume, accounting for 20-30% of total IPO proceeds over the past few years, and over half the total volume in 2020 through August (Fig. 4).

Fig. 4: SPACs account for half of all IPO activity in 2020



Source: Jay Ritter, University of Florida, SPAC Insider, UBS as of 10 September 2020

In their early days, SPACs were primarily a last resort for smaller or lesser known companies to go public, with less than favorable terms offered toward investors. The boom in supply the past few years is attributable to a few factors:

- **SPAC eco-system has matured:** There has been a perceived improvement in the quality of SPAC market participants, including the sponsors, targets, and investors, helping to legitimize the SPAC process. In turn, private company owners have become more aware of SPACs as an alternative method of accessing public capital versus a traditional IPO. Larger SPAC sizes have also widened the opportunity set of targets.

- **Structural changes in SPAC terms:** Most notably, there is now a bifurcation between deal voting and redemption rights. In the past, voting and redemption rights were tied together and an individual investor with a sizable position could put any particular deal in jeopardy. In the current iteration, investors can now vote for a deal to pass while also redeeming shares for cash. Sponsors are also willing to provide backstop financing as a way to cover redemption risk. As a result, more mergers have gone forward—the success rate (i.e. the SPAC acquires a company prior to the expiration date) is around 90% in recent years versus less than two-thirds in earlier generations. Not all developments have been positive for investors. Warrant coverage has declined, with 1/3 or 1/4 or a warrant per unit becoming more common in 2020. This may reflect strong demand enabling some sponsors to offer SPACs with more issuer-friendly terms.
- **Ability to leverage deal sizes through a PIPES offering:** SPACs can expand upon the initial equity capital raise from another group of investors through a PIPE offering, which occurs after the target business is identified. The initial equity plus the PIPE enable larger acquisitions and broader cohort of companies to be taken public via a SPAC.
- **General market dynamics:** Given SPACs earn a risk-free rate of return (pre-merger announcement) with equity upside potential, they have attracted institutional and alternative investors in the low interest rate environment. The prospect of investing in a compelling growth story is also driving SPAC demand, particularly from retail investors. In addition, the surge in SPAC fundraising is increasing the competition for target companies, which increases their incentive to merge given the more favorable terms offered.

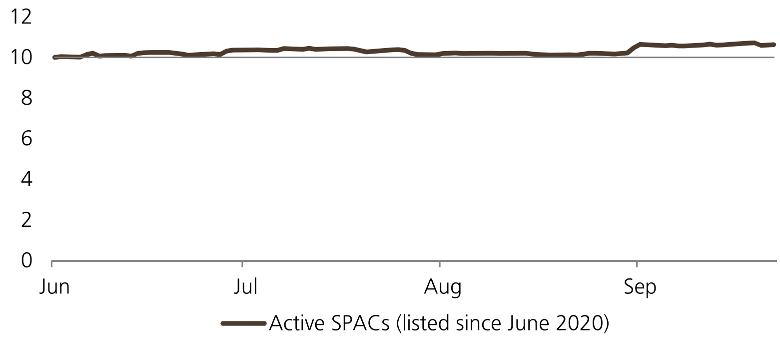
SPAC returns across their life-cycle

Due to the multi-staged life-cycle of SPACs, performance should be evaluated over three phases: 1) IPO to announcement of the acquisition; 2) announcement to merger completion date; and 3) returns over 3-, 6-, and 12-month periods post-merger completion. Total returns depend on the share price plus the contribution from warrants. Measuring share price returns is straightforward, but estimating how much value warrants add is harder because they can be stripped from the shares within months of the IPO and don't actively trade. The following return analysis is based primarily on a SPAC merger/"de-SPAC" dataset of 53 completed transactions between January 2018 and July 2020.

1) IPO to merger announcement
During the first phase when the sponsor is still seeking an acquisition target the market price of the SPAC stays relatively constant near the initial offering price (in most cases USD 10). Relatively uneventful performance pre-

announcement makes sense: without a specific target, investors receive little new information to justify substantial price movements. The average stock price path for active SPACs listed since 1 June 2020 through to 20 September barely deviates from USD 10 (Fig. 5).

Fig. 5: SPAC unit prices remain stable during target search
Average share price (n=43), in USD



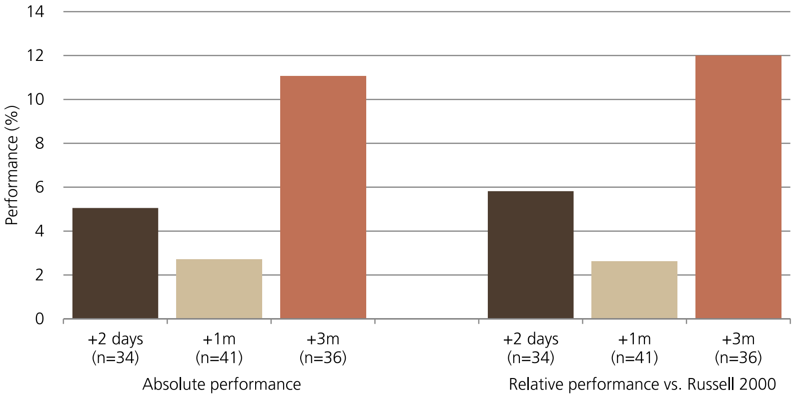
Source: Goldman Sachs Global Investment Research, Bloomberg, UBS, as of 25 September 2020

There is an opportunity cost of owning SPACs in this phase that should be considered when evaluating returns. The funds used for the SPAC investment could have been in cash instead, which has a negligible cost at current rates. But the cost could be much higher if the funds are invested in public equities. For this SPAC sample, the average return to the S&P 500 from the IPO date to one day prior to the merger announcement was 15%.

2) Post-merger announcement
The SPAC share price usually experiences a positive reaction on the acquisition announcement when the target company becomes clear. The absolute return measured from 1 day before to 2 days after the announcement averaged about 5%, with 80% of the returns between 1% and 8%. The average was 2.5% and 11% over 1- and 3-month post-announcement periods, respectively (Fig. 6). Controlling for market returns (using the Russell 2000 small-cap index) had only a minor impact. The big difference between 1- and 3-month returns—the latter also has much greater dispersion around the average—is due to investors having more time to evaluate the target and the deal's likely completion, pricing that information into the market.

Fig. 6: SPAC absolute and relative performance post merger announcement

Sample of SPAC transactions completed since January 2018, performance in %



Source: Goldman Sachs Global Investment Research, Bloomberg, UBS, as of 28 September 2020. Performance data excludes warrants

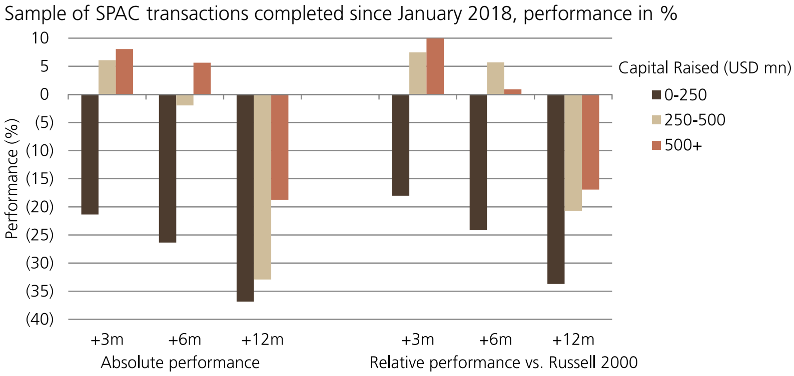
The combination of phase one price patterns and merger announcement returns are consistent with the expectation that SPAC absolute returns should be zero to positive, at least through the announcement. The redemption option provides downside protection up to the merger, while the price pop on the announcement at least partly reflects the resolution of uncertainty that an acquisition will occur.

3) Post-merger completion

Average returns turned negative in the post-merger completion stage. Both absolute and market-adjusted average returns were negative over 3-, 6-, and 12-months, and they got worse with the horizon length (Fig. 7). Smaller SPACs also produced the lowest returns across all three horizons, while the largest SPACs' returns were better, though still negative. This size-return pattern is likely due to the higher risk nature of smaller acquisition targets, and it's also evident in traditional IPOs.

Fig. 7: SPAC absolute and relative performance post merger completion

Sample of SPAC transactions completed since January 2018, performance in %

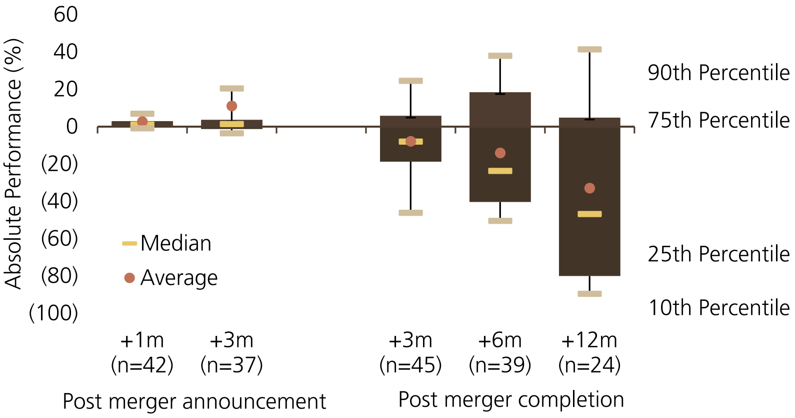


Source: Goldman Sachs Global Investment Research, Dealogic, UBS, as of 30 July 2020. Performance data excludes warrants

Negative average returns mask the huge dispersion in individual returns, especially over one year (Fig. 8). At 3-months the returns for the 90th (25%) and 10th (-46%) percentile SPACs differed by 71%, and this range increased to 131% over 1-year. A majority of SPACs still had negative returns for all three horizons, but the returns for the "winners" were significant. Negative average returns and wide dispersion demonstrate that SPAC investors no longer have any downside protections once the merger is complete.

Fig. 8: Distribution of SPAC returns post-announcement and merger

Sample of SPAC transactions completed since January 2018, performance in %



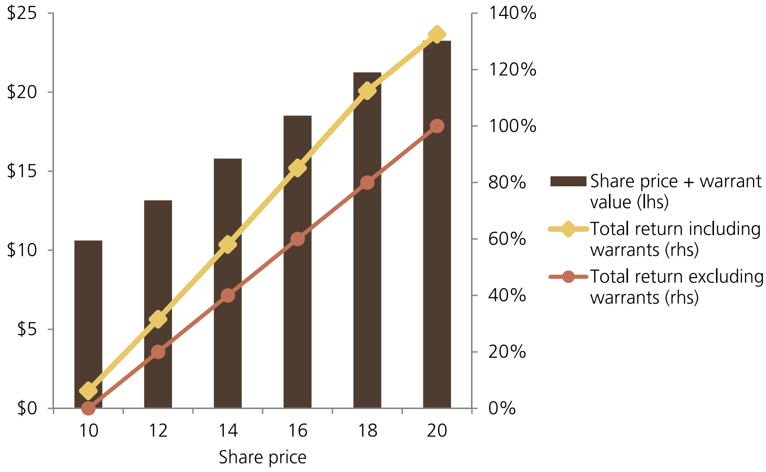
Source: Goldman Sachs Global Investment Research, UBS, as of 30 July 2020. Performance data excludes warrants

4) Warrant contribution to returns

Share price returns understate the total return to SPACs because they don't reflect the value of the warrants. We illustrate with a general example how much the warrants can add to the return. In a standard SPAC investors get 1/2 of a warrant with each unit, with an exercise price of USD 11.50 and forced conversion price of USD 18. The warrant value then depends on the current share price, the stock volatility, time to maturity, and interest rates. Fig. 9 shows the value of a typical SPAC unit for a range of share prices. The unit value is greater than the share price at all levels because of the warrant value. Based on a purchase price of USD 10, the total return at each share price is shown for just the shares and for shares plus warrants (i.e. one unit). The warrants' contribution to the total return increases with the share price, adding over 30 percentage points to the total at a share price of USD 20. In contrast, if the share price falls below USD 10 and the price return is significantly negative, the warrant value won't provide much offset.

Fig. 9: Warrants can be a large contributor to total returns

Value of 1 unit (1 share + 0.5 warrants) at different share prices and total return



Source: UBS, as of 22 September 2020. Note: Bloomberg OVME Warrant Value calculation; assumptions include $11.50 strike price, $18.00 cap price, 0% div. yield, 1,650 days (~4.5 years) until expiration; 2.0% risk free rate, 1.0% borrow cost, and 20% Vol.

Performance summary and outlook

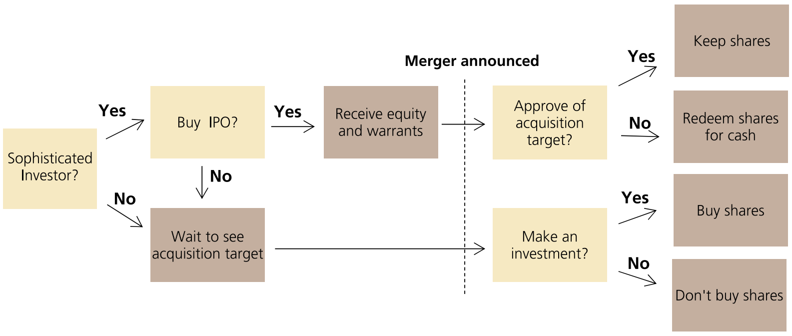
We're cautious in drawing strong conclusions on SPAC performance based on a relatively small sample over a two-year period. Still, they performed as expected from IPO to merger announcement, with limited downside and some upside optionality. But performance deteriorated after the merger was complete, with returns that are consistent with standard IPOs: the average operating company underperforms the market one year after the public-listing, whether via IPO or SPAC, but there's huge dispersion in outcomes.

There are reasons to expect the post-merger performance of future SPACs to be better than the results in Fig. 7. Larger SPACs will lead to larger acquisitions, which should improve the quality of the companies acquired. That pattern is already apparent in the return data. The entry of established alternative asset managers and investors, who can bring more expertise to the acquired company, should also help post-merger performance. However, lower interest rates will reduce pre-merger returns and fewer warrants in the unit offering means a smaller boost to total returns.

Investment and risk considerations

Potential SPAC investors need to make three sequential decisions: whether they should even invest in SPACs, when is the best time to invest in a SPAC, and where do SPAC investments belong in a portfolio. This series of decisions is summarized in Fig. 10. The first is the most important because SPACs are complicated structures that can lack transparency, are essentially an investment in the sponsors skills that aren't easy to evaluate, and long-term returns haven't been good on average. Consequently, only sophisticated investors capable of conducting rigorous due diligence on the sponsor and deal terms, and have a high tolerance for contractual complexity and risk, should directly invest in SPACs at their IPO.

Fig. 10: Decision tree for potential SPAC investors



Source: UBS

The justification for these recommendations is based on the challenges of doing good due diligence on acquisition targets but especially sponsors, the time-varying risk/return profile of SPACs, and the SPAC-specific risks of these investments.

Sponsor due diligence

SPAC sponsors are typically composed of industry veterans, investment banks, hedge fund and private equity managers, and other wealthy investors. Some sponsors actively try to add value to target companies based on their expertise, while others are more transactional, looking to sell their position once the target is publicly listed. In recent years, industry executives who have public company experience, or have sold their business and are seeking new opportunities, have become a larger proportion of the SPAC sponsor population, with 76% of 2019 SPAC IPOs sponsored by industry executives (as per Jeffries), up from 65% in 2018 and 32% in 2017. Recently, SPAC sponsors have come outside of traditional spheres, including Oakland A's executive vice president Billy Beane and Former House Speaker Paul Ryan. Overall, sponsors can play an important role in identifying acquisitions, driving the strategic direction of the acquired company, and marketing SPACs during the fundraising stage.

The decision to invest in a SPAC IPO depends significantly on whether an investor can conduct thorough due diligence on the sponsor's ability to identify attractive targets, acquire them at reasonable valuations, and then potentially add value post-acquisition. A successful track record of acquisitions or as a senior executive at a public company is a necessary but not sufficient condition. It's also important to understand the sponsor's objectives and whether they're transaction-oriented or focused on value creation in the target company. Even experienced sponsors make mistakes, especially when the acquisitions are in nascent industries or involve businesses with complex structures.

Target due diligence
Evaluating the acquisition target only begins in the second stage of the SPAC life-cycle, and it entails conventional single stock analysis. While it's difficult to generalize a typical SPAC target, recent notable acquisitions have been in unique businesses such as space exploration (Virgin Galactic), fantasy sports (DraftKings), and concept autos (Fisker, Canoo, Nikola). SPACs have found these companies as suitable and willing candidates, in part because they can be acquired and publicly-listed without having to market esoteric business models in a traditional IPO. SPACs also allow the target company to include projections and forecasts for their business that is not allowed in regular IPO filings. There have been a number of notable and sizable companies acquired by SPACs in 2020 (Fig. 11).

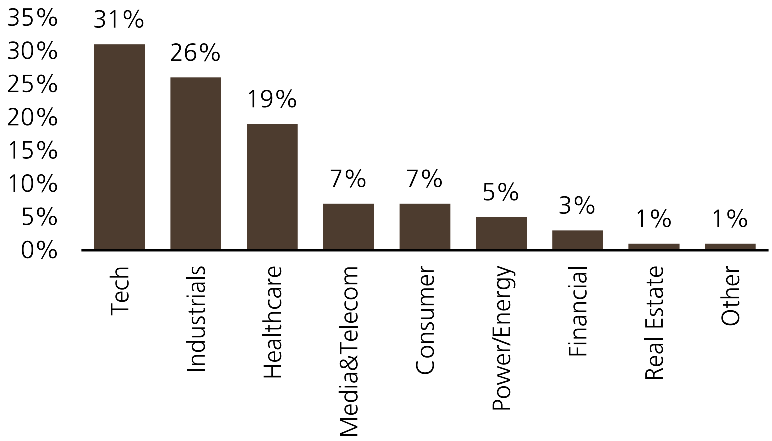
Fig. 11: Notable SPAC transactions in 2020

Target company	Sponsor	Deal value
Multiplan	Churchill Capital Corp. III	$11.1b
Fisker	Spartan Energy Acquisition Corp.	$2.9b
Luminar	The Gores Group	$2.9b
Canoo	Hennessy Capital	$2.4b
Global Blue	Far Point Acquisition Corp.	$2.3b
GCM Grosvenor	Cantor Fitzgerald	$2.0b
Rush Street Interactive	dMY Technology Group	$1.9b
Velodyne Lidar	GRAF	$1.6b

Source: Dealogic, Citi

Looking at targets by industry, 31% of the deals transacted year-to-date were derived from the technology sector (Fig. 12). However, while these late stage VC-type businesses have become popular, SPAC targets have not been limited to the technology sector, or to unique businesses. In the past year, acquisitions were also completed across more traditional sectors such as consumer products, (Utz brands), leisure (Top Golf) and mining (MP Mining). Lastly, the private equity industry held over USD 2.6 trillion of unrealized value as of December 2019, which could provide a robust source for SPAC targets as well.

Fig. 12: Global SPAC acquisition by industry in 2020



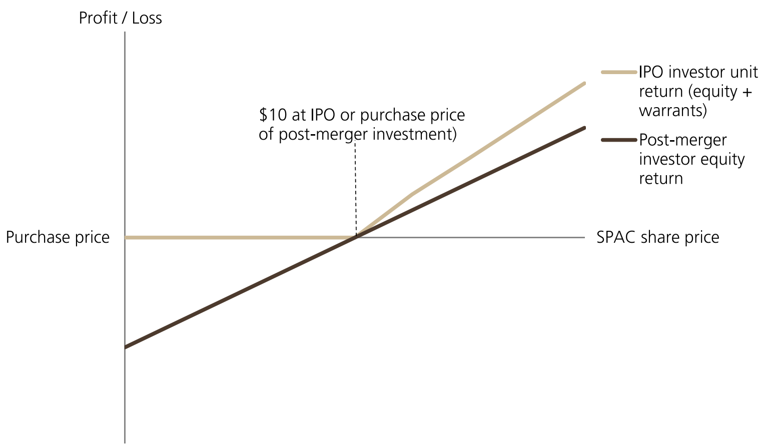
Source: Citi, Dealogic. Data reflects percentages based on the number of deals.

SPAC payoff profile
From the IPO until the merger announcement a SPAC investment is roughly equivalent to a portfolio of safe fixed income and call options on the stock of an undetermined company. Consequently, investors have upside optionality with limited downside risk, but incur the opportunity cost of not being fully invested and the warrants can expire worthless. The return data are consistent with this payoff profile. The typical SPAC share price barely deviated from USD 10 until the merger is announced and then always "popped" over the subsequent two days. There was a fairly steep opportunity cost for this sample of SPACs, as the average S&P 500 return from the IPO dates to the merger announcement date was 15%.

Once the merger is complete, but effectively even soon after the acquisition is announced, a SPAC investment becomes a position in a newly public small/mid-cap company. This is no different from investing in a company right after a standard IPO. In both cases the stock has high idiosyncratic risk and therefore significant potential downside. Post-merger returns highlight this risk, as in our recent sample the average return over 12 months was -33%, while the return dispersion was 131% between the 90th and 10th percentiles.

A simple, stylized illustration of the different payoff profiles for these two periods is shown in Fig. 13. The payoff for a SPAC IPO investment looks like a standard call option with an exercise price of USD 10, at least until shortly after the merger announcement. The redemption option limits the downside if the share price falls below USD 10, while investors capture the upside stemming from the announcement pop and the warrants.
The payoff to investing in the SPAC after the merger announcement, and especially after completion, is the same one-for-one fluctuation with the share price as any long position in a stock.

Fig. 13: Illustrative SPAC payoff at different purchase dates



Source: UBS

SPAC-specific risks
The structure and governance of SPACs is complex relative to the common shares in public companies. That fact, along with the current enthusiasm for SPACs, creates a distinct set of investment risks:

- A sponsor can be incentivized to make an acquisition even if the target company isn't an attractive investment. The sponsor is usually compensated with a 20% promote of the outstanding equity and warrants. If a deal is not completed within the 24-month time frame, the capital must be returned to investors and the warrants expire worthless. Acquisitions announced right before the 24-month deadline, when the pressure to find a target is highest, may not be in the best interest of investors.
- Incentive compensation for sponsors may not be fully transparent at the IPO and with it the potential for greater shareholder dilution than expected. Also, the SPAC might not be the only vehicle used to raise funds for the acquisition. PIPEs or additional debt are quite common, which is another potential dilution problem for a SPAC investor that is unknown during the initial stage before a target is identified.
- SPAC investors may not have sufficient information about a target company when voting to approve the acquisition. A SPAC is an attractive option for private companies that want to be publicly listed, but don't want to incur the time, cost, and regulatory scrutiny of a standard IPO. As a result, investors may not have the same transparency into the company that they would have if the company had filed an S-1 form with the SEC to go public.
- With strong interest among new sponsors to offer SPACs and from investors to participate in these offerings, there's a risk that this could create speculation that ultimately isn't matched by performance. With an estimated USD 38 billion in SPAC capital seeking acquisitions, and

that amount is growing rapidly, there's a risk that target values get inflated, impairing future returns.

Recommended investment strategy and portfolio allocation
Based on all these factors, our recommendation is that only sophisticated investors should consider SPAC investments, at least until the acquisition target is announced. For these investors a diversified portfolio of SPACs bought at the IPO offers the best risk-return trade-off because of the downside protections and upside optionality built into the unit structure and governance.

Moreover, participation in SPAC IPOs should be viewed as an investment trading strategy rather than a long-term investment in an asset class. Investors have no information about the eventual acquisition target at the IPO and therefore shouldn't make long-term commitments to these investments. The event-trading nature and optionality of the SPAC IPO payoff profile with the redemption option and warrants is analogous to some event-driven and relative value hedge fund strategies.

As a result, a portfolio of SPAC IPOs best resides within the alternative investments sleeve of an overall portfolio. While SPACs have similarities to private equity at their IPO, they aren't a substitute because of other fundamental differences. Both provide capital to sponsors for acquisitions and have capital commitment and investment phases. But SPAC shares are publicly-traded and investors can redeem them for their initial investment before the merger, which must occur within two years. Thus, a SPACs portfolio is a complementary allocation to the alternatives sleeve, and one that should be small because of the short performance track return of the current iteration of SPACs.

If an investor doesn't participate in the IPO, they should then wait until the merger target is at least announced before deciding whether to buy shares. There’s little relevant information revealed before the merger announcement that wasn’t already available at the IPO. This investment decision criteria should be the same as for any stock, with the additional considerations of how the sponsor’s incentive compensation and other financing needed to complete the deal can dilute the equity stake and impair future returns.

Investors at this stage must keep in mind that returns post-merger announcement, and especially post-completion, have been poor on average and worse than a simultaneous investment in the S&P 500. That's not true of all SPACs, as there is very wide dispersion. Finally, these post-merger SPAC investments fit into the US small/mid-cap equity portion of the overall portfolio since that's the typical target company.

Final thoughts

The dramatic growth in the number of SPACs listed in 2020 and the amount of capital they've raised has greatly increased their public profile. Such notoriety for this newly emergent investment vehicle can be both a blessing and a curse. It creates another viable avenue for private companies to become publicly listed, when they perhaps otherwise wouldn't have done an IPO. That has opened up more opportunities for public equity investors to get access to faster growing companies. But the surge in SPAC issuance this year and investor interest may lead to frothy market conditions that result in disappointing investment performance.

As with any new and complex investment, SPACs require thorough due diligence and a good understanding of their governance and risks. The evolution just in the past year of SPACs as a structure, their offering and deal sizes, and the whole eco-system also means that past performance will be even less useful as a guide to future returns. Investors should also approach them in the same way they do for any other investment, which is determining how such an investment can enhance the overall return and risk properties of their portfolio.

Appendix: SPACs versus private equity

While SPACs are sometimes viewed as a combination of a private equity investment and a traditional IPO, there are also major differences to note when comparing and contrasting these structures. Their similarities include:

- Both SPACs and private equity funds fundraise for the eventual purchase a private company.
- Many sponsors themselves come from private equity backgrounds.
- Management teams for both structures play an important role in successful fundraising, identifying targets, and operational execution post purchase.
- There are aligned interests between investors and sponsors to drive value to underlying investments through incentives- either through equity ownership, warrants, or fees.

There are also a number of differences to highlight:

- Private equity investments typically stay private, whereas SPAC targets aim to go public.
- SPAC investments involve an investment in a single private company, whereas a private equity fund can invest in around 15 companies. For this reason, investing in SPACs are more akin to a direct or co-investment.
- While SPACs can be accessed by a wide range of investors, private equity funds are typically limited to accredited or qualified clients/purchasers.
- Private equity funds have finite holding periods, with fund terms lasting around 10-15 years. On the other hand, SPACs exist as an ongoing concern.
- SPAC 'fees' are generally reflected in the sponsor's promote (typically 20% of the initial IPO fund raise), with additional dilution from exercised warrants. In a private equity structure, there is typically a management fee of 2% on invested or committed capital, with carried interest of 20% above a hurdle rate.

Appendix

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