



SPACs: A Compelling Strategy

Amid global market turmoil, short-term U.S. treasuries are often the first choice as investors clamor for a safe haven. Special Purpose Acquisition Companies (SPACs), however, can offer excess returns in their pre-acquisition phase while maintaining much of the safety that treasuries provide.

SPACs, once popular in the early 1990s only to fade away, have seen a resurgence in recent years. They allow the investing public to act like a private equity manager, speculating in transactions that were once reserved for institutional investors and private equity firms. Formed during an Initial Public Offering (IPO), a SPAC is essentially a blank check written by investors to a management team. That team then typically spends the next 18 to 24 months searching for a merger candidate it believes will create an accretive transaction that benefits all investors.

SPAC IPOs are typically sold as a package. During the IPO, units are sold and proceeds are deposited into a trust account. Each unit is priced at \$10 and consists of a varying combination of common shares, warrants, and rights. Management teams will sometimes contribute additional money to the trust to entice investors to purchase the IPO. The cash raised is held in an interest-bearing trust account, invested in cash and short-term T-bills, and monitored by a third-party trustee until a business combination is approved by shareholders.

After the IPO, the units trade on an organized exchange, providing liquidity for investors. After a short period, the units split and their individual components — common shares, warrants, and rights — begin trading separately. Similar to Karpus' core strategy utilizing closed-end funds, SPAC common shares can trade at a discount or premium to their pro-rata trust value.

The unit structure also lets investors custom-tailor their risk/return profile. Warrants and rights can offer high returns but carry high risk; only the common shares carry a direct claim on the trust. For our purposes, we focus exclusively on the common equity component.

In client fixed income portfolios, we hold a basket of SPAC common shares, similar to a ladder bond portfolio. Each SPAC has different fundamental characteristics, but we purchase all at a discount

to the value held in trust. The workout on a SPAC position can happen at any point in the SPAC's life, and when we buy at a discount to trust, we're underwriting to one of three outcomes.

The first — and our base, worst-case scenario — is that the SPAC is unable to complete a transaction and liquidates, returning cash to common shareholders. In the current market, this typically generates an annualized return of roughly 5-6% over a 12- to 24-month holding period.

The second and third scenarios occur once a SPAC finds an acquisition target. Because SPAC common shares trade freely, they can move to a discount or premium to trust value depending on how the market receives the deal. If a target is poorly received, shares tend to stay below trust value, and we exercise our right to redeem for our pro-rata share of the trust. This scenario closes the discount to cash faster than a liquidation would, albeit at a lower trust value — and it tends to modestly outperform the base case on an annualized basis.

Lastly, the third scenario is when a SPAC finds an acquisition target and the transaction is well received by the market. Shares trade above trust value, and we simply sell into the market — closing the discount to cash quickly and capturing extra return above the cash held in trust. This case produces the highest annualized returns of the three scenarios as seen this summer after a deal was announced by Churchill Capital Corp XI (CCXI). Shares traded up over 50% above trust after it announced its business combination with Agility Robotics, capturing significant upside over our base return target.

Additionally, it is important to remember that's why Karpus holds a diversified basket of SPACs — not every deal gets received this way. On the other end of the spectrum sits a SPAC like BOA Acquisition Corp. II (THEO), which recently split into its component shares, warrants, and rights and is trading with roughly a year of remaining life. At current prices as of 8/31/2026, THEO's common shares imply a yield to liquidation of about 5.5%, compared with the 1-year treasury bill, which currently yields approximately 3.96%. That's a spread of roughly 150 basis points of substantially similar T-bill exposure with added upside potential if a promising deal is announced.

A SPAC strategy is particularly compelling in recent weeks. After bottoming out in 2023, SPACS saw 144 IPOs in 2025 and are up to 142 year-to-date so far in 2026 — producing a glut of paper on the market. Additionally, the CCIX deal was announced in June, and subsequent deal announcements have been lackluster. In the what-have-you-done-for-me-lately SPAC market, a lack of exciting deals has caused speculative investors to look elsewhere. Coupled with the oversupply glut, we have seen yield spreads widen to highly attractive levels.

At no point do our clients actually own the operating company that results from a completed SPAC transaction — that outcome would introduce meaningfully more risk than is suitable for client portfolios. By purchasing SPACs at a discount to trust ahead of a merger, an investor is effectively buying cash and short-term Treasuries at a discount — using them in the most conservative way possible while still producing excess returns over comparable Treasury instruments. Names like CCXI and THEO illustrate why SPACs remain what we believe to be one of our best ideas on the short end of the yield curve.

- Sources: Bloomberg, State Street Advisors, Crossing Bridge Advisors, ARC Group, Duane Morris and Selvam, Investnet, PwC, U.S. Securities and Exchange Commission, NASDAQ, Yahoo! Finance, Yale Journal on Regulation.

The SPACs referenced in this article are provided solely for illustrative purposes to demonstrate certain characteristics of SPAC investments and Karpus Investment Management's investment approach. Neither SPAC was held in client portfolios as of the date of publication, and the references should not be construed as a recommendation to purchase, sell, or hold any particular security. Karpus Investment Management may currently or in the future evaluate, purchase, sell, or otherwise transact in the securities discussed herein or in other securities with similar characteristics. The examples presented are not intended to be representative of all SPAC investment opportunities, and there can be no assurance that similar opportunities will be available or profitable.

Contacts

Information/Queries

183 Sully's Trail
Pittsford, New York 14534
Phone: 585 586 4680
Fax: 585 586 4315

Website

www.karpus.com

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