

A PRIMER ON SPACS

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What is a SPAC?

- **A SPAC, or Special Purpose Acquisition Company, is a publicly listed company where a sponsor raises a blind pool of capital and then typically has two years to find a private company with which to merge and take public**
 - When a SPAC proposes a merger, shareholders can choose to participate in the merger or redeem their shares
 - If a SPAC fails to complete a merger within two years, it liquidates and returns funds to shareholders with interest
- **SPACs are often sold as units – shares + warrants – and the warrants are detachable**
- **The sponsor's role is to generate value for shareholders and partners by sourcing, structuring, and transacting at an attractive price**
- **Following completion of the transaction, the SPAC structure is dissolved and the acquired business operates as a publicly traded company**

Trends in SPAC Issuance

In 2020, SPACs Raised the Same Amount as IPOs



Source: Dealogic, Bloomberg, Public filings, Note: Data excludes closed-end funds and deals <\$50mm
*Includes all U.S. and Canada-listed SPACs, with Canadian IPO amounts converted from CAD to USD as of each closing

SPACs in 2020

■ **SPACs surged in 2020**

- 248 SPACs raised a total of \$83 billion
- 184 SPACs actively searched for targets
- 64 SPACs closed their combination

Traditional IPO Issuance

# Deals	186	43%
\$ Proceeds (\$B)	\$83	50%

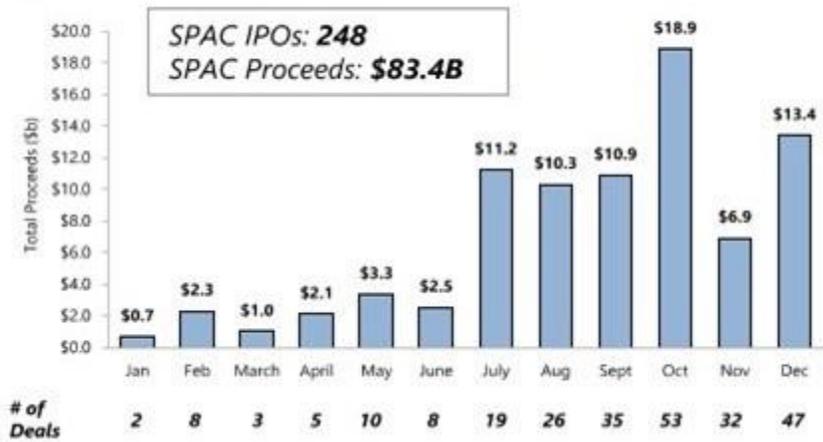
SPAC IPO Issuance

# Deals	248	57%
\$ Proceeds (\$B)	\$83	50%

Source: Dealogic

The Pace of SPAC Deals Accelerated During the Year

Total Proceeds Raised (\$b) and Deal Count



Source: Public filings, BTIC



Key Participants

■ Banks

➤ All major banks and smaller specialists are players, such as



Morgan Stanley



■ SPAC Sponsors

➤ Successful CEOs, business owners, and private equity funds, such as



CHURCHILL CAPITAL III

THE GORES GROUP

SOCIAL CAPITAL



■ Financial Sponsors

➤ Private businesses and portfolio companies of private equity funds, such as



WARBURG PINCUS

GTCR

■ Institutional Investors

➤ Sophisticated long-only investors and family offices, such as



BLACKROCK



■ SPAC IPO

- SPAC raises capital in IPO and starts publicly trading
- Typically, it takes two years to identify a target

■ Target LOI / Pipe Financing

- Once SPAC identifies acquisition target, letter of intent is signed
- Investment banks contact key investors to introduce a target and invite them to consider funding a pipe in conjunction with an acquisition
- Deal is consummated and publicly announced

■ Merger/De-SPAC

- Post-announcement it generally takes 3-6 months for a shareholder vote. A majority of existing shareholders must approve the transaction for it to close
- Shareholders have the option to redeem and get their initial investment back yet keep their warrants
- Upon closing, the SPAC structure disappears, and the acquired business continues as a publicly traded company under the name of the acquired business

Advantages of SPACS vs. IPO

■ For Sellers

- Faster execution and certainty of deal closing
- Negotiated selling price and more liquidity upfront since they can sell secondary shares in the offering
- Alignment with high-quality sponsors
- Ability to provide long-term financial projections

■ For Sponsors

- Opportunity to earn significant equity for raising the upfront capital and closing the transaction
- Ongoing involvement in the day-to-day management and/or the strategic direction of the business
- Opportunity to do additional SPAC deals

■ For Institutional Investors

- Generally early and extensive access to management and longer window for deep due diligence
- Opportunity to invest significant capital up front
- Ability to affect price and terms (sometimes)

Strong 2020 Performance for SPACS

As of December 31, 2020

■ SPACs did well

- Median price of shares that have closed acquisitions was \$13.75

SPAC M&A Activity	2018	2019	2020
Current Post-Combination Share Price (Avg.) ¹	\$10.90	\$12.63	\$16.25
Current Post-Combination Share Price (Median) ¹	\$7.52	\$8.33	\$13.75

■ Many SPACs were up over 50% in 2020

- 26 of 64 deals closed in 2020 were up over 50%



■ Hot Sectors

- Successful sectors of SPAC deals included: Electric vehicles, online gaming, LIDAR (autonomous driving), alternative energy, and space exploration



Baron Small Cap Fund's SPAC Investments

As of December 31, 2020

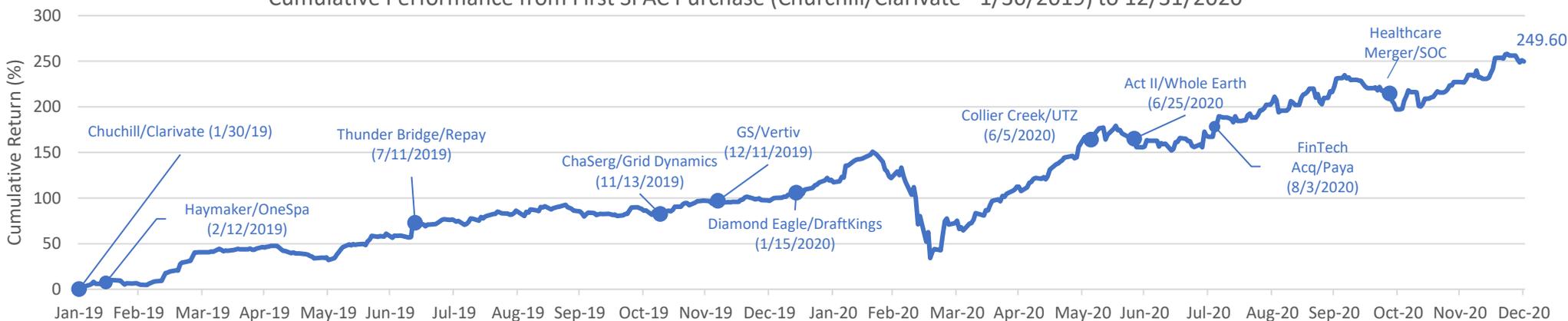
Baron Small Cap Fund has invested \$317 million in 10 SPACs worth \$612 million*

#	SPAC/Acquisition Target	Initial Purchase Date	Initial Investment (\$)	Market Value (\$)	Weight (%)	Cumulative Total Return for Period Held (%)	Annualized Total Return for Period Held (%)
1	Churchill Capital Corp./Clarivate Plc	1/30/2019	44,078,833	118,840,000	2.3	184.7	72.3
2	Haymaker Acquisition Corp./OneSpa World Holdings Limited	2/12/2019	23,970,442	24,239,241	0.5	17.5	8.9
3	Thunder Bridge Acquisition Ltd./Repay Holdings Corporation	7/11/2019	23,357,118	95,375,000	1.9	210.2	114.9
4	ChaSerg Technology Acquisition Corp./Grid Dynamics International, Inc.	11/13/2019	24,881,764	31,500,000	0.6	22.1	19.2
5	GS Acquisition Holdings Corp./Vertiv Holdings, LLC	12/11/2019	69,841,612	130,690,000	2.6	111.9	103.1
6	Diamond Eagle Acquisition Corp./DraftKings, Inc.	1/15/2020	9,218,227	46,560,000	0.9	256.7	256.7
7	Collier Creek Holdings/UTZ Brands, Inc.	6/5/2020	51,358,520	90,446,000	1.8	80.9	80.9
8	Act II Global Acquisition Corp./Whole Earth Brands, Inc.	6/25/2020	3,242,109	1,936,968	0.0	44.0	44.0
9	FinTech Acquisition Corp. III/Paya, Inc.	8/3/2020	36,561,336	47,530,000	0.9	28.5	28.5
10	Healthcare Merger Corp/SOC Telemed	10/27/2020	30,755,144	25,480,000	0.5	-27.6	-27.6
Total			317,265,103	612,597,209	12.1	249.6	91.7

*As of 12/31/2020

Baron Small Cap Fund SPAC Investments

Cumulative Performance from First SPAC Purchase (Churchill/Clarivate - 1/30/2019) to 12/31/2020



Source: FactSet PA and BAMCO

- Baron Small Cap Fund only invests after the target has been identified and it has conducted extensive research, although other Baron funds may invest earlier
- Baron Small Cap Fund has additionally committed to two pipe transactions (E2open and Janus International)
- Other Baron Funds have invested \$181 million in a dozen additional SPACs worth \$288 million



Observations and Conclusion

- **SPACs are a legitimate way to go public and will continue to become mainstream. We don't believe this is a bubble or a back door.**
- **SPACs have been great for Baron Small Cap Fund and Baron Capital**
 - SPACs are great source of new ideas
 - Baron has a deep research team that has focused on and succeeded in the space
 - Baron has been sought out by SPAC sponsors and investment bankers as potential investors, which provides a proprietary early look at all deals in the pipeline
 - Generally, we have had more time to conduct extensive due diligence
 - We typically get larger allocations at favorable prices than in an IPO
- **Baron Small Cap Fund employs the same investment process that it uses to source and research other new ideas. Our SPAC investments have the same attributes and characteristics as our other investments.**
- **Areas of Concerns**
 - Too many SPACs chasing too few targets, which could drive up the price. Sponsor's incentive is to close the deal at any price
 - Many early stage and speculative companies are coming public through this channel and attracting retail investors. We are concerned that these companies are not seasoned enough for the public markets and the stocks will be volatile.
 - Financial projections could be misleading and overly optimistic without extensive due diligence
 - Most early investors (\$83 billion in 2020 alone) will seek to sell their shares post-SPAC. Will there be enough institutional demand to transition ownership from SPAC shareholders to long-term institutional investors?

Disclosures

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectuses contain this and other information about the Funds. You may obtain them from the Funds' distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Baron Small Cap Fund's annualized returns for the Institutional Shares as of December 31, 2020: 1-year 40.68%, 5-year 19.88%, 10-year 14.47%. Annual expense ratio for the Institutional Shares as of September 30, 2019 was 1.05%.

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost. The Adviser reimburses certain Baron Fund expenses pursuant to a contract expiring on August 29, 2031, unless renewed for another 11-year term and the Fund's transfer agency expenses may be reduced by expense offsets from an unaffiliated transfer agent, without which performance would have been lower. Current performance may be lower or higher than the performance data quoted. For performance information current to the most recent month end, visit www.BaronFunds.com or call 1-800-99BARON.

Performance for the Institutional Shares prior to 5/29/2009 is based on the performance of the Retail Shares, which have a distribution fee. The Institutional Shares do not have a distribution fee. If the annual returns for the Institutional Shares prior to 5/29/2009 did not reflect this fee, the returns would be higher.

Risks: Specific risks associated with investing in smaller companies include that the securities may be thinly traded and more difficult to sell during market downturns. Even though the Fund is diversified, it may establish significant positions where the Adviser has the greatest conviction. This could increase volatility of the Fund's returns.

Top 10 holdings as of December 31, 2020

Holding	% Assets
Installed Building Products, Inc.	3.4
Gartner, Inc.	3.2
SiteOne Landscape Supply, Inc.	3.1
Guidewire Software, Inc.	3.1
The Trade Desk	2.8
Floor & Decor Holdings, Inc.	2.7
ASGN Incorporated	2.6
Vertiv Holdings, LLC	2.6
Clarivate Plc	2.3
ICON Plc	2.3
Total	28.1

Portfolio holdings are subject to change. Current and future portfolio holdings are subject to risk.

BAMCO, Inc. is an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Baron Capital, Inc. is a limited purpose broker-dealer registered with the SEC and member of the Financial Industry Regulatory Authority, Inc. (FINRA).