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Hedge Funds a Hot Target for SPACs

The financial services sector, particularly alternative asset managers, have become a popular sector from which SPACs hope to pluck targets.

Alternative Asset Management Acquisition Corp. recently announced a $505 million deal with **Halcyon Asset Management,** which oversees a total of $11.5 billion in assets. This is not the first hedge fund firm to be taken public by a SPAC and it is indicative of a growing trend.

Freedom Acquisition Holdings completed a $3.4 billion merger with one of Europe's largest hedge funds, **GLG Partners,** last year. Another SPAC, **Highbury Financial,** closed a deal in 2006 with the asset management arm of Dutch investment bank **ABN AMRO. Titanium Asset Management,** an AIM-listed SPAC, is said to be acquiring three U.S. asset management firms.

Essentially a reverse merger, Halcyon will receive $505 million in cash and stock and a $115 million bank note. Its shareholders will retain a 43.6% stake in the new company with possible increases based on the stock's future performance.

Another six SPACs, **Global Alternative Asset Management, iStar Acquisition Corp., Raycliff Acquisition Corp., RAI Acquisition Corp., Apple Creek Acquisition Corp.** and **Transformation Capital Corp.,** all still in registration, have stated in their prospectuses that alternative asset management firms will be their primary focus.

David Miller, a managing partner at New York law firm **Graubard Miller,** said there is nothing unique about connecting SPACs and hedge funds.

"Whenever an industry becomes a great M&A opportunity, it generates great attention from SPACs." Miller pointed to the shipping business in 2004 and 2005, during which time shipping companies were increasing in value practically daily, he said. Consequently, shipping-focused SPACs were very popular. Currently, hedge funds are a very attractive acquisition market, and are generating attractive multiples.

Christopher Gastelu, a managing director at **UBS,** who heads the firm's SPAC practice, said alternative asset management is "a very much untapped sector, with only a few public companies." Additionally, he said fund managers are a principle majority of SPAC sponsors, in which case, taking hedge funds public is a logical use for the vehicle.

Interestingly enough, two SPACs, **Open Acquisition Corp.** and **JWL Partners Acquisition,** are looking at practically everything but alternative asset management. According to a source working on the JWL offering, an asset management deal would not make sense because of the management's vast consumer experience.