

Goshawk

Presentation to the Society of Actuaries

15 November 2018

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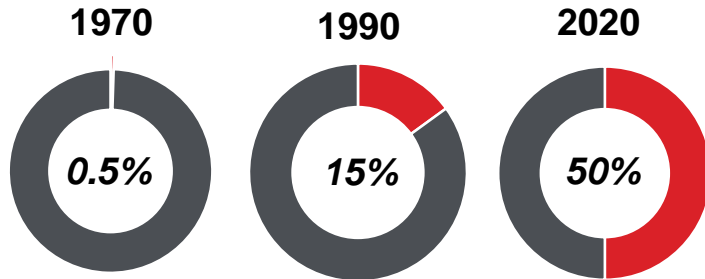
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Aircraft Leasing Sector

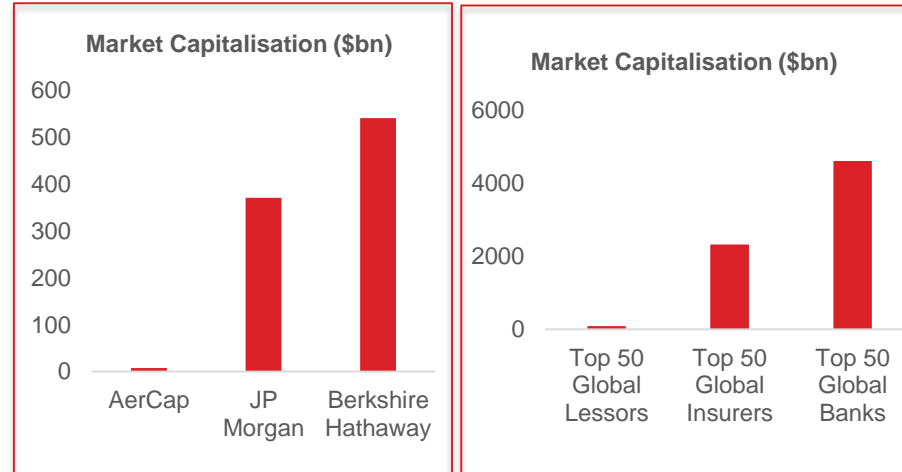
Aircraft Leasing Sector Overview

Relatively “New”

Lessor share of global fleet



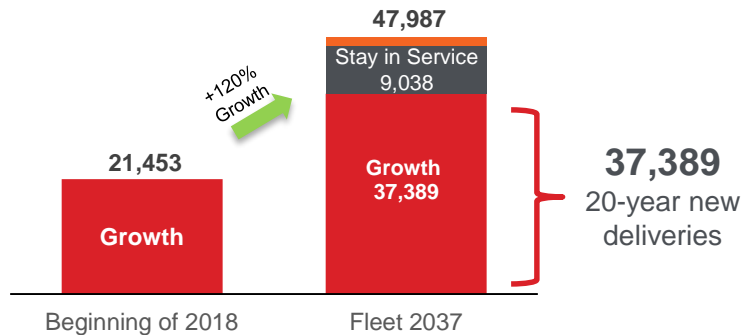
Niche



Source Bloomberg, Forbes, Yahoo Finance

Source: Air Finance Journal, www.banksdaily.com

Growing



Source: Airbus 2017 Market Forecast

(1)(2) Including freighters above 10 tonnes; (2) 20-year new deliveries of passenger and freighter aircraft

Global

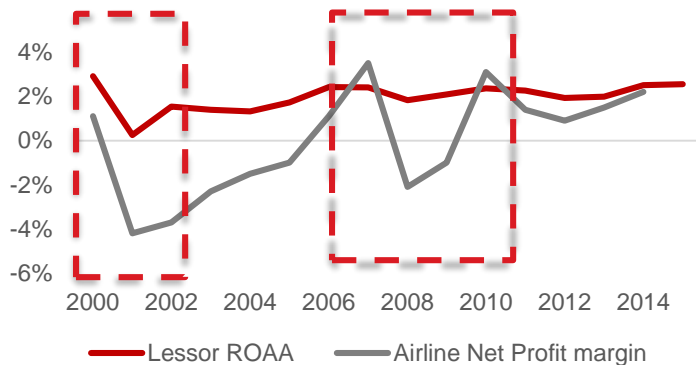


Aircraft Leasing Sector Overview

Centred in Ireland



Stable Returns



Source: Airbus GMF 2016–2035

Levered

- 2x to 4x leverage
- Multiple leverage sources and products used
 - Private Loans - Banks
 - Private Bonds
 - Public Bonds
 } Institutions

Equity Investment Channels

1. Only a handful of listed aircraft leasing company
2. Most are privately owned - good fit for FI's
 - Insurance co.'s (Pacific Life, Ping An, AIG)
 - Banks (SMBC, Mitsubishi, RBS)
 - Financial conglomerates (CTFE, Cheng Kong, Mitsubishi Trading)
3. Use of "side-car" structures to partner with 3rd party equity

2

Goshawk

Goshawk Overview

Established
in
**November
2013**

Owned by
**Hong Kong
Conglomerate**

10th largest
globally

223
committed
a/c 167 a/c
on book at
YE18

\$11.3bn
committed
assets
(**\$9.1bn** on
book)

\$7bn+ debt

\$2.3bn
committed
equity

3 Managed
Debt and
Equity
Vehicles for
3rd parties

Avg fleet
age **3.0 yrs**

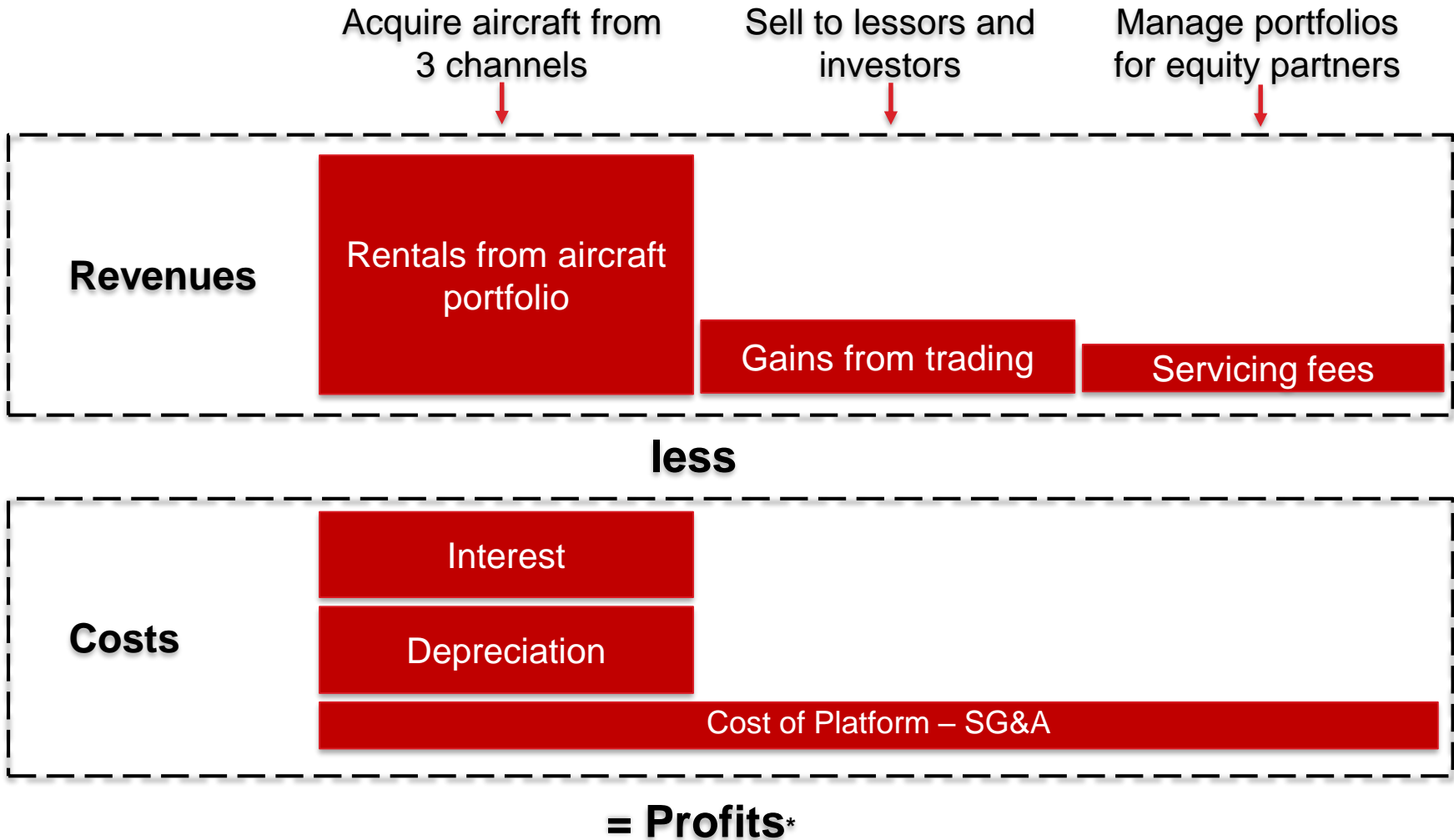
Avg
remaining
lease term
7.7 yrs

**HQ in
Dublin.**
Offices in
HK, US,
China, UK

78
Employees

Metrics as at August 2018

Drivers of Profitability



*Before tax, non realised hedging gains / losses

Measuring “Returns” at Goshawk

Economic	Accounting / Rating
NPV, IRR, Yield	RoE, Leverage, FFO
Based on expected cashflows <ul style="list-style-type: none"> • Cash out: Purchase Price, Interest, Depreciation / Amortisation, SG&A • Cash In: Rentals over life, Leverage, Value at end, Maintenance Reserves 	Based on accounting and ratings agencies ratios <ul style="list-style-type: none"> • Not always consistent with “economic” measures

Other leasing businesses may have different measures depending on their shareholder requirements

Measuring “Risks” at Goshawk

Core Considerations



Asset Risk (will value be preserved?)

- Industry forecasting models and asset liquidity models used to identify target asset types for investment (a continuous process).
- Ensure assets are appropriately maintained through the lease term.
- Price the maintenance exposure
- Ensure assets are returned in agreed condition at lease end.

Credit Risk (will rentals be paid?)

- Due diligence completed before entering into a lease.
- Monitor lessee performance through lease life – ongoing, via regular interaction with airline clients.
- Identify risks as early as possible.
- Work with airlines to consensually manage issues before they become critical.

Transaction / Portfolio Risk (a continuing exercise)

- Ensure transactions are appropriately secured (Maintenance reserves, security deposits, etc.).
- Ensure pricing appropriately reflects risk.
- Continuously evaluate actual portfolio vs. target portfolio.
- Identify assets to trade for risk management purposes.
- A cross functional and continuous process.

Key Risk Management Objectives



Choose the right deals

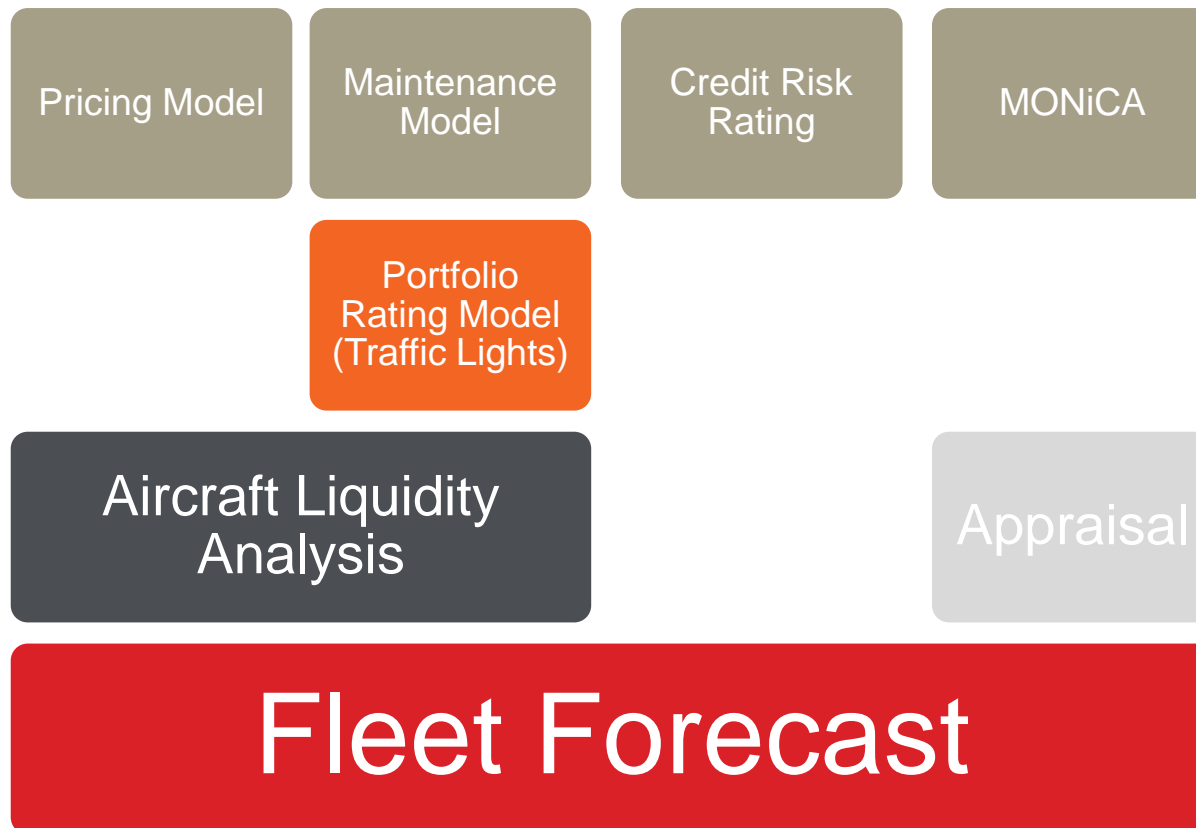
Structure them appropriately

Actively manage the portfolio

Models provide information to enable us to make informed commercial decisions

Measuring “Risks” at Goshawk

Models used by the business



Goshawk uses a more analytical approach than many of its peers

The “Leverage” side of the business

Typically 2x to 4x leverage

Cost

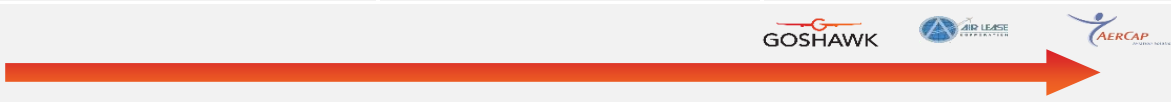
- 40-50% of total cost base is interest repayments
- Lower interest = more competitive

Risk

- Requirements for continuous access to leverage markets
- Multiple debt channels available
- Bank, private bond, public bond
- Diversification of sources = reduced risk.
- Flexibility of structures = reduced risk

Leverage Products

Now A Mature Lessor With The Objective Of Accessing the Public Debt Markets

	Phase I Start-up (Years 1-2)	Phase II Established (Years 2-3)	Phase III Mature Lessor (Years 4+)
Lessor Attributes	<ul style="list-style-type: none"> Limited financial / operational track record Small asset portfolio Limited banking relationships 	<ul style="list-style-type: none"> Strong growth track record Large asset portfolio Limited institutional investor relationships 	<ul style="list-style-type: none"> Stable track record Strong institutional / bank relationships Established public presence / brand name
Illustrative Status			
Funding Sources	<ul style="list-style-type: none"> Secured non-recourse facilities Bilateral transactions 	<ul style="list-style-type: none"> Recourse facilities Warehouse/revolving credit facilities Unsecured Debt (e.g. private placements) Phase I products 	<ul style="list-style-type: none"> DCM Products (both secured and unsecured): public bonds, ABS, etc. EXIM/ECA Phase I and II products
Key Conditions	<ul style="list-style-type: none"> Collect diversified assets for facilities 	<ul style="list-style-type: none"> Sufficient net assets such that recourse has substance Obtain product ratings for institutional investors Initial portfolio of unencumbered assets 	<ul style="list-style-type: none"> Obtain public corporate rating Established operational/financial track record (typically 4+ years of audited financials) Large portfolio of unencumbered assets

Positioning Goshawk for Investment Grade public rating

Hedging Philosophy

Exposure to interest rate risk primarily arises when lease rental income is fixed but the cost of financing references a floating interest rate index e.g. 3 month US Dollar LIBOR

Aim

Minimise the variability in future cash flows caused by changes in benchmark interest rates

Instruments

Vanilla interest rate swaps are the primary hedging instrument used

In circumstances where the fixed lease term is longer than the term of the current debt funding, Goshawk may look to fix the cost of borrowing for the full life of the lease

A Day At Goshawk



How Might An Actuary Enter the Sector



Team Based Work Ethos

A deal team consisting of one representative from each department is established for each transaction Goshawk participates in.

At Goshawk, the focus is on “on-the-job” learning and development

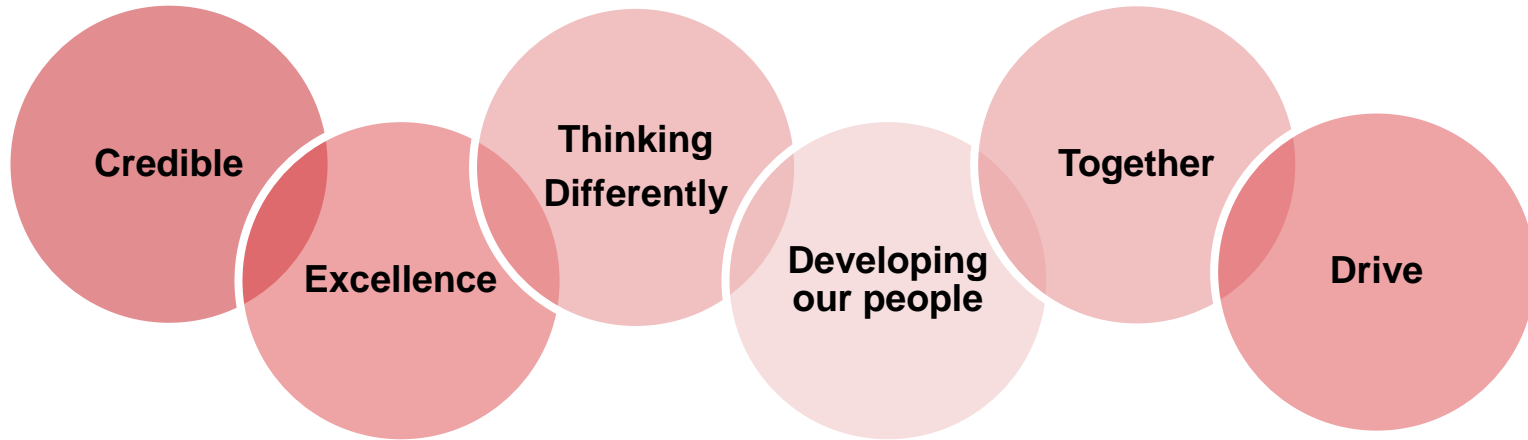


How Goshawk attracts skilled staff



(1) We currently have an experienced team of 70 permanent and 8 temporary employees

How we retain our staff



We retain our staff by

- **Collaborative, team focused environment:** Facilitates “on the job” exposure to a broad range of experiences
- **Develop our people:** Success of the business is driven by the strength of the team
- **Empower our people:** Empowerment = Motivation = Satisfied Team = Successful Business
- **Culture of open communication:** Support / Means to Best Decision
- **Shape your own career path:** Encourage people to think about the “experiences” they want & discuss with the business how to make that happen
- **Credibility is king:** Say what you mean, deliver what you promise
- **Drive and Passion** to be excellent in everything we do

