HUDSON STRUCTURED
CAPITAL MANAGEMENT LTD.

Developments in Global Air Traffic

July 2017

Aviation Growth Trends

HUDSON STRUCTURED CAPITAL MANAGEMENT LTD.

Global Aviation Traffic & Capacity Growth

2017	Traffic Growth (RPK²) January	February	March	April	April YTD	Capacity Growth (ASK³) January	February	March	April	April YTD
Global[1]	8.9%	8.6%	6.5%	10.7%	7.9%	8.0%	6.4%	6.1%	7.1%	5.9%
International	9.2%	5.8%	6.4%	12.5%	8.4%	7.5%	3.4%	6.1%	7.7%	6.1%
Europe	8.3%	6.5%	5.7%	14.4%	8.9%	6.7%	3.4%	4.7%	7.9%	5.7%
North America	3.2%	0.3%	2.7%	10.3%	4.2%	4.1%	-0.5%	2.3%	5.8%	3.2%
Domestic	8.7%	3.3%	7.6%	7.7%	6.9%	8.7%	1.6%	6.1%	6.2%	5.6%
India	26.6%	17.0%	14.6%	15.3%	18.4%	20.9%	14.0%	13.5%	13.5%	16.3%
China	23.2%	19.1%	15.1%	12.7%	14.2%	18.5%	5.3%	10.8%	11.2%	11.3%

[1] *Global Data Adjusted for 2016 leap year; all other data unadjusted.*

[2] *RPK is Revenue Passenger Kilometers*

[3] *ASK is Available Seat Kilometers*

Global Aviation Traffic & Capacity Trends

- YTD through April, global air traffic is growing 200 percentage points faster than capacity (7.9% vs 5.9%)
  - Traffic higher than capacity growth in both domestic and international segments is supportive of narrow and wide body aircraft
- Adjusting for inflation, IATA reports that air fares were 10% lower during the first quarter of 2017 than a year ago
  - ULCCs and LCCs expansion is driving yields lower in short-haul regional markets
- China and India domestic demand is driving growth in the Asia Pacific region but both countries are expected to report slowing GDP growth in the second half of 2017 which may also result in moderating growth in air traffic demand
- Europe continues to grow well ahead of GDP growth
- The Oil Patch is recovering with Russia reporting in April the highest growth of any domestic country and the Middle East region growing at a stable low double digit pace

Table Source: IATA
* Yield is revenue divided by RPK.

Implications & Market Opportunities

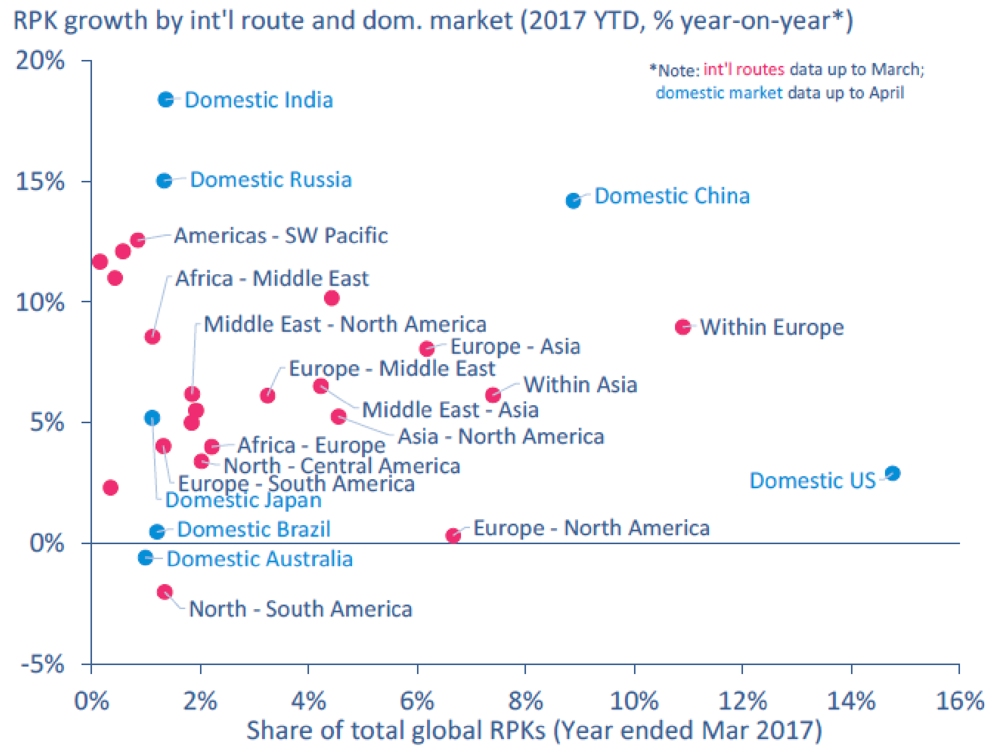
HUDSON STRUCTURED CAPITAL MANAGEMENT LTD.

Industry Implications

- If maintained, demand and capacity growth at this pace is broadly supportive for aircraft values
- Aggressive expansion of new entrants with competitive cost structures and continuing expansion of Middle East carriers with global ambitions are depressing yields
- Traffic increases may be driven by low and ultra-low cost carriers – more expensive latest generation aircraft may attract low lease rates and values despite this support
- Widebodies continue to appear over-ordered but April traffic growth almost 500 percentage points higher than capacity growth (12.5% vs 7.7%) sets up the potential for correction of current imbalances
- China, Japan and Korea have the potential to create imbalances in aviation leasing by investing much greater capital into the sector than growth in demand. Government sanctioned policies, both monetary and fiscal, and unintended consequences of currency flows may be contributing factors.
- Low range-bound oil supports mid and late life values while new orders placed before 2014 face steeper value depreciation curves
- Peripheral aviation markets, such as helicopters, turboprops, and corporate may offer better value though each have their own unique challenges

RPK Growth by Route & Market

RPK Growth by Int'l Route & Domestic market (latest month, % year-on-year)*



Sources: IATA Economics, IATA Monthly Statistics by Route

Notes

HUDSON STRUCTURED
CAPITAL MANAGEMENT LTD.

This presentation is not investment advice; it is not intended to be used as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express investment or other recommendations. As such, the information contained herein has been prepared solely for general informational purposes. Information contained herein may include information that has been prepared by independent third parties and made publicly available. We have not verified and are not liable or responsible for the completeness or accuracy of such information. Accordingly, neither we nor any of our affiliates or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein and nothing contained herein shall be relied upon as a promise or representation as to past or future performance of markets or specific investments. Any opinions, forecasts, assumptions, estimates and commentary herein are made only as of the dates indicated, are subject to change at any time without prior notice, and cannot be guaranteed as accurate. Additionally, the information herein may not be current. We have no obligation to provide any updates or changes to any such opinions, forecasts, assumptions, estimates, and commentary or to any data or information contained herein.