Wings of Necessity: The Growing Role of Mature Fleets in Airline Operations

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Executive Summary

The aviation sector is at a critical juncture, where the latest model/new-generation aircraft and engines face increasing market and governmental scrutiny over reliability, supply chain delays and escalating costs. These issues are driving the current market dynamics that highlight the reliability and economic advantages to airlines of employing mid- to end-of-life (EOL) aircraft and engines (referred to in this White Paper as "mature") and create a compelling value proposition for investing in this segment.

Introduction: The State of the Aviation Market

The global airline industry is under significant pressure to meet growing demand (due to an increase in both leisure and business travel, as well as e-commerce), achieve sustainability goals, and enhance profitability. While new-generation aircraft such as the Airbus A320 NEO, A330 NEO and A350 and the Boeing 737 MAX family and 787 offer advanced technology and improved fuel efficiency, their introduction has been plagued by reliability issues, governmental investigations, production delays and higher than anticipated operational costs.

In contrast, mature aircraft and their associated engines — those typically 12 to 25 years old — continue to play a critical role in sustaining airline operations. These assets offer proven reliability, lower acquisition costs and enhanced flexibility, making them attractive to airlines and investors alike.

Market Dynamics and Challenges with New Technology Aircraft

1. Reliability and Performance Issues

New-generation aircraft are marketed for their fuel efficiency and reduced environmental impact, but their advanced systems often result in:

- *Premature Wear and Tear*: Next-generation engines like the Rolls-Royce Trent 1000 and Pratt & Whitney GTF models have faced significant durability issues, leading to unplanned maintenance and grounding of aircraft.
- *Supply Chain Bottlenecks*: Replacement parts for new technology equipment are scarce and expensive, increasing downtime.
- *Software Glitches*: Complex avionics systems require frequent software updates, causing operational disruptions.
- *Governmental-Mandated Groundings*: Aviation authorities are requiring the grounding of certain new models following discovery of product issues.

2. Production Delays

Manufacturers are struggling to meet delivery timelines due to supply chain disruptions, labor shortages, governmental-associated production line shutdowns and geopolitical factors. These delays leave airlines with no choice but to retain or lease mature aircraft and engines to maintain capacity.

3. High Acquisition and Financing Costs

The rising cost of new aircraft and engines, coupled with tightening credit markets, has increased barriers for airlines seeking to modernize their fleets.

The Case for Investing in Mature Aircraft and Engines

1. Demand Exceeds Supply
With global passenger traffic demand at historic highs in a post-Covid environment (aircraft load factors, a ratio that indicates how full an aircraft is, were at historic highs at approximately 85%-90% throughout the second half of 2024), and with the market dynamics and challenges described above for new technology aircraft and engines, airlines have been forced to modify their fleet retirement/growth strategies by extending their utilization plans for mid-to EOL assets, creating an enhanced demand profile for mature aircraft and engines that benefits investors in these assets.

2. Proven Reliability and Durability
Mid- to EOL aircraft and engines have established track records of reliability. Airlines are familiar with, and can forecast, their maintenance requirements, and operational risks of these assets are well-understood.

3. Lower Capital Expenditure
Acquiring (or renewing) mature aircraft and engines requires significantly less capital than acquiring new aircraft. This allows airlines to better control profitability and provides investors with the opportunity to diversify their portfolios, spread risk and achieve better returns on investment.

4. Flexibility in Deployment
Mature aircraft and engines are versatile and can be readily redeployed for:

- Cargo Conversions
- Charter Services
- Low-Demand Regions or Secondary Routes

5. High Demand in the Aftermarket

Once EOL aircraft and engines reach their end of economic useful life as "flyers", such assets can be dismantled and disassembled into discrete parts and components that have substantial value in the aftermarket. The aftermarket features a robust ecosystem of MROs (maintenance, repair, and overhaul organizations), repair shops, airlines and other industry players. These organizations are able to generate for investors beneficial returns on investment insofar as these parts are necessary for continued operations of airlines.

6. Resilience to Market Fluctuations

During economic downturns or crises like COVID-19, airlines often defer new aircraft/engine purchases and lease older aircraft. This trend increases demand for mid- to EOL assets, providing stability to investors.

Value Proposition for Investors

Investing in mid- to EOL aircraft and engines offers the following advantages to investors:

1. *Strong Cash Flow Potential*: Lower acquisition costs combined with stable lease rates generate attractive yields.

2. *Enhanced Asset Utilization*: Mature fleets can remain in service for extended periods with strategic maintenance, maximizing revenue potential.

3. *Attractive Risk / Reward Profile:* Investing in mid- to EOL assets provides investors with downside risk protection (e.g., contracted lease cash flows, remarketing flexibility, reliable asset values and sector-specific legal protections such as the Cape Town Convention), a potential hedge against inflation, and a return profile that is largely uncorrelated with the broader publicly traded fixed income and equity markets.

4. *Scalability and Diversification:* Investors can acquire a mix of narrow-body, wide-body, turboprop, and cargo aircraft, and their related engines, to cater to different market segments.

5. *Counter-Cyclical Resilience*: The reduced reliance on new aircraft minimizes exposure to macroeconomic risks and production delays.

6. *Tax Benefits*: Investing in mature aircraft and engines, as with any asset investment, may generate significant tax benefits for investors.

Key Investment Risks and Mitigation Strategies

1. Maintenance and Regulatory Compliance
While mid- to EOL aircraft require more frequent maintenance, modern predictive technologies and partnerships with MRO providers can optimize costs and ensure compliance.

2. Volatility in Fuel Prices
Older aircraft are less fuel-efficient, but this risk can be offset by leasing these assets for short-haul or niche operations where fuel efficiency is less critical.

3. Environmental Regulations
Investors should closely monitor evolving environmental policies. Many mature aircraft can be retrofitted with technologies to meet emissions standards, or they can be repurposed for cargo operations, which face fewer regulatory pressures.

Conclusion: The Strategic Role of Mature Fleets

Mature aircraft and engines provide a reliable and cost-effective solution for airlines navigating market uncertainties. For investors, the mid- to EOL segment offers a unique opportunity to achieve attractive returns while mitigating risks associated with new technology. By capitalizing on the robust demand for proven, versatile assets, an aviation investment strategy focusing on mature aircraft and engines can deliver superior investment returns and long-term value.

We hope you will invest with us.

Feel free to contact us with any questions.

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