



ZEPHYRUS  
AVIATION

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**ZEPHYRUS AVIATION PARTNERSHIP**  
**23 JANUARY 2019**

THIS PRESENTATION CAN ONLY BE OFFERED TO PROFESSIONAL, INSTITUTIONAL CLIENTS, AND QUALIFIED INVESTORS. THIS MATERIAL IS PERSONAL TO EACH OFFEREE AND MAY ONLY BE USED BY THOSE PERSONS TO WHOM IT HAS BEEN DISTRIBUTED.

## THE INVESTMENT OPPORTUNITY

- ❖ **Background:** Virgo Investment Group has launched the *Zephyrus Aviation Partnership (ZAP)* to capitalize on an overflow of opportunities that exceeds the Firm's currently available capital. Virgo's aviation business line, Zephyrus, was launched in 2012 and has carved out an attractive and differentiated market niche as a *fleet management solutions provider to lessors and airlines*. Virgo has closed a large anchor investment to enable ZAP, alongside Virgo fund VSP IV, to acquire 21 aircraft from a motivated seller seeking liquidity. Zephyrus is actively negotiating several airline partnerships and has a pipeline of other transactions that will require additional capital
- ❖ **Focus:** ZAP is pursuing exclusive, non-auction aircraft acquisitions from traditional lessors (like Project Maverick, see Case Study) and proprietary airline partnerships (like Project Jannus)
- ❖ **Asset Type:** the Zephyrus strategy is focused on (i) older to end-of-life, primarily narrowbody aircraft and (ii) engine leasing & trading for those aircraft
- ❖ **Target Returns:** 15% net IRR and >1.5x net MOIC over a 5 year time period (with an average individual investment life of ~3 years)
- ❖ **Availability:** ZAP has been seeded by Virgo's existing investors with >\$100 million. ZAP is targeting an additional >\$100 million of capital to deliver on the current deal pipeline and to enable the execution of the fleet management solutions business plan

## WHY NOW

- ❖ **Attractive Risk-Adjusted Return Compared to Cash Flow Credit:** Opportunity to invest in a cash-yielding, asset-based platform, focused within the least cyclical segment of the aviation market, levered to global air traffic expansion and aircraft fleet rebalancing needs
- ❖ **Deal Pipeline Exceeds Virgo Funds' Capital:** ZAP is an efficient approach to capitalizing on Virgo's overflow of opportunities
- ❖ **Strong, Realized Returns:** the Zephyrus aviation business line realized a 24% gross IRR and a 1.7x gross MOIC for Virgo fund VSP III<sup>1</sup>
- ❖ **Identified Market Opportunity – Fleet Management Solutions Business Plan:** Airlines are increasingly focused on passenger transportation, versus fleet management, and require solutions for older to end-of-life aircraft
- ❖ **Cycle Resistant Strategy with Downside Protection:** Aviation is a cyclical sector. However, the Zephyrus target market has counter-cyclical demand drivers. Older to end-of-life, narrowbody aircraft and the associated engine components have exhibited resilient asset values that provide downside protection
- ❖ **Differentiated Sourcing:** ZAP "creates" transactions, it does not "buy the market." Virgo Partners and the Zephyrus management team have 30+ year industry relationships with airlines, OEMs, and lessors. These relationships allow Zephyrus to "create" transactions and avoid auction deals

<sup>1</sup>Gross IRR represents the gross internal rate of return on all cash flows (including co-investments from third parties). Gross MOIC represents the gross multiple of invested capital on all cash flows (including co-investments from third parties). The gross IRR and gross MOIC include deal expenses and taxes paid by Owner/Lessor on the investment only and do not reflect Virgo's management fees, carried interest or Fund expenses, which will reduce returns and may be substantial.

# EXECUTIVE SUMMARY (CONT'D)

## WHY ZEPHYRUS / VIRGO

- ❖ **Investment Community Vision:** The ZAP vehicle is consistent with Virgo's vision of capitalizing on identified market seams together with its investor partners in an aligned and transparent manner. Opportunity to extend relationships with existing partners and build relationships with new partners in the *Arista Strategy* – niche, asset-based investments – of which Zephyrus is a subset
- ❖ **Strong, Realized Track Record:** Virgo has been investing in older to end-of-life, commercial aircraft since 2012 through the Zephyrus aviation business line and realized a 24% gross IRR and a 1.7x gross MOIC for Virgo fund VSP III<sup>1</sup>
- ❖ **Access to Exclusive Deal Flow:** Virgo Partners and the Zephyrus Management Team have deep, long-standing relationships with key decision makers across the aviation universe (airlines, OEMs, lessors)
- ❖ **Dedicated Team with High Continuity:** Tony Diaz (*former President of CIT Aerospace and Virgo Operating Partner*) and Damon D'Agostino, (*former Chief Commercial Officer of CIT Aerospace*) were recruited in 2017 to lead the next phase of development of the Zephyrus business. Tony and Damon have (i) managed over \$10+ billion in aviation assets across multiple industry cycles and (ii) worked together for over 20 years at CIT Aerospace



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# ZEPHYRUS INVESTMENT CASE

<p><b>Attractive risk-adjusted return segment within private credit</b></p>	<ul style="list-style-type: none"> <li>• Defensive profile – 12%+ unlevered yield, 20-30% maximum principal risk to “floor” value, rapid amortization of risk</li> <li>• Diversified global GDP exposure – aircraft are fungible across countries</li> <li>• Long-term demand drivers – passenger traffic is growing and has been resilient through recessions (including 2009)</li> <li>• Zephyrus target market is the most recession resistant within aviation and has exhibited counter-cyclical demand drivers – airlines focus on older planes in their existing fleets in a downturn</li> </ul>
<p><b>Downside protection</b></p>	<ul style="list-style-type: none"> <li>• Older aircraft are depreciated and closer to their underlying part-out “floor” value</li> <li>• Older aircraft generate a higher lease cash yield than newer aircraft – rapid return of principal de-risks capital</li> <li>• Multiple exit optionality for older aircraft – not solely dependent on the leasing market</li> </ul>
<p><b>Strong, realized track record</b></p>	<ul style="list-style-type: none"> <li>• Virgo has been investing within the Zephyrus target market since 2012 – realized &gt;24% gross IRR<sup>1</sup></li> <li>• Added the Zephyrus management team who has significant asset management expertise through multiple cycles – 30+ year heritage in aviation / realized long-term mid-teens ROE at CIT Aerospace</li> </ul>
<p><b>Overflow of differentiated deals</b></p>	<ul style="list-style-type: none"> <li>• Zephyrus has completed transactions representing &gt;2x available capital from Virgo fund VSP IV</li> <li>• ZAP is an efficient approach to capitalize on additional “overflow” deals – Virgo is raising capital against an actionable pipeline, not a blind pool</li> <li>• Zephyrus “creates” transactions and does not “buy the market” – differentiated industry relationships and distinct fleet management business plan</li> </ul>

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# ZEPHYRUS TRACK RECORD

## VIRGO FUND INVESTMENTS

- ❖ Virgo launched the Zephyrus aviation platform in 2012 with the mission of creating a fleet management solutions provider
- ❖ The Zephyrus platform has realized a >24% gross IRR<sup>1</sup> across all transactions
- ❖ Virgo recruited the current Zephyrus management team to execute on the next phase of the business plan
- ❖ Virgo Partners and the Zephyrus management team have 30+ year industry relationships with airlines, OEMs, and lessors. These relationships allow Zephyrus to “create” transactions and avoid auction deals
- ❖ ZAP has already closed the initial Project Maverick deal (see Case Study) and has a near-term pipeline that exceeds \$100 million in additional equity capital

### VSP II TRACK RECORD

Asset	Vintage	Closing Date	Country	GROSS IRR / MOIC <sup>1</sup>	Duration (Years)
2 x B737-700	1998	Oct-12	India	47% / 1.3x	0.9
2 x CFM56-7B	N/A	Oct-12	Nigeria	24% / 1.4x	4.9

### VSP III TRACK RECORD

Asset	Vintage	Closing Date	Country	GROSS IRR / MOIC <sup>1</sup>	Duration (Years)
2 X B737-600	1998	Feb-14	Scandinavia	22% / 2.1x	4.3
1 X A320-200	2001	Apr-14	UK	13% / 1.5x	3.4
4 X B737 -700	1998/2002	May-14	Brazil	26% / 1.5x	2.6
1 X CFM56-7B	N/A	Oct-14	South Africa	22% / 1.7x	3.5
1X A320 -200	2001	Mar-15	US	40% / 1.7x	2.0
1 X A340-300	1996	Oct-15	Argentina	49% / 1.7x	2.7

<sup>1</sup> Gross IRR represents the gross internal rate of return on all cash flows (including co-investments from third parties). Gross MOIC represents the gross multiple of invested capital on all cash flows (including co-investments from third parties). The gross IRR and gross MOIC include deal expenses and taxes paid by Owner/Lessor on the investment only and do not reflect Virgo's management fees, carried interest or Fund expenses, which will reduce returns and may be substantial.

<sup>2</sup> Total purchase price and Fund Invest include co-investments in the SAS, GOL, Comair and Aerolineas transactions

Note: Track record above excludes 'non-Zephyrus' aviation investments from VSP II including: a new A320-200 sale leaseback (new aircraft trade) and B737-Classic engine trading (out of production and off-lease asset – not a Zephyrus trade). Returns for these non-Zephyrus trades available upon request. All performance numbers are calculated using an internal rate of return defined as the rate of return earned by the investment based on the cash flows using the "XIRR" function in Microsoft Excel.

# ZEPHYRUS: OPPORTUNITY SET

Opportunity	Investment Description	Actionable Opportunity Size (Equity) (\$mm)	Status
<b>Older / End-of-Life Aircraft Leases</b> (e.g., Project Maverick)	Mid/late-life aircraft on stub lease, non-auction transactions, motivated sellers, attractive sum of the parts exit values	>\$200	Initial portfolio closed / discussions on additional acquisitions ongoing
<b>Airline Partnerships</b> (e.g., Project Sea, Jannus)	Partnerships with leading airlines (and OEMs) to provide fleet management solutions (spare engine leasing, interim “lift”)	>\$200	Ongoing discussions
<b>Engine &amp; Component Trading</b> (e.g., Project Sky)	‘One off’ aircraft and engine trades with multiple monetization options (part-out, repair and lease, trade)	>\$50	Initial transaction in process / robust pipeline of opportunistic trades being pursued





# ZEPHYRUS MANAGEMENT TEAM

Tony Diaz, former President of CIT Aerospace, is the Zephyrus Chairman

Damon D'Agostino, former Chief Commercial Officer of CIT Aerospace, is the Zephyrus President and CEO

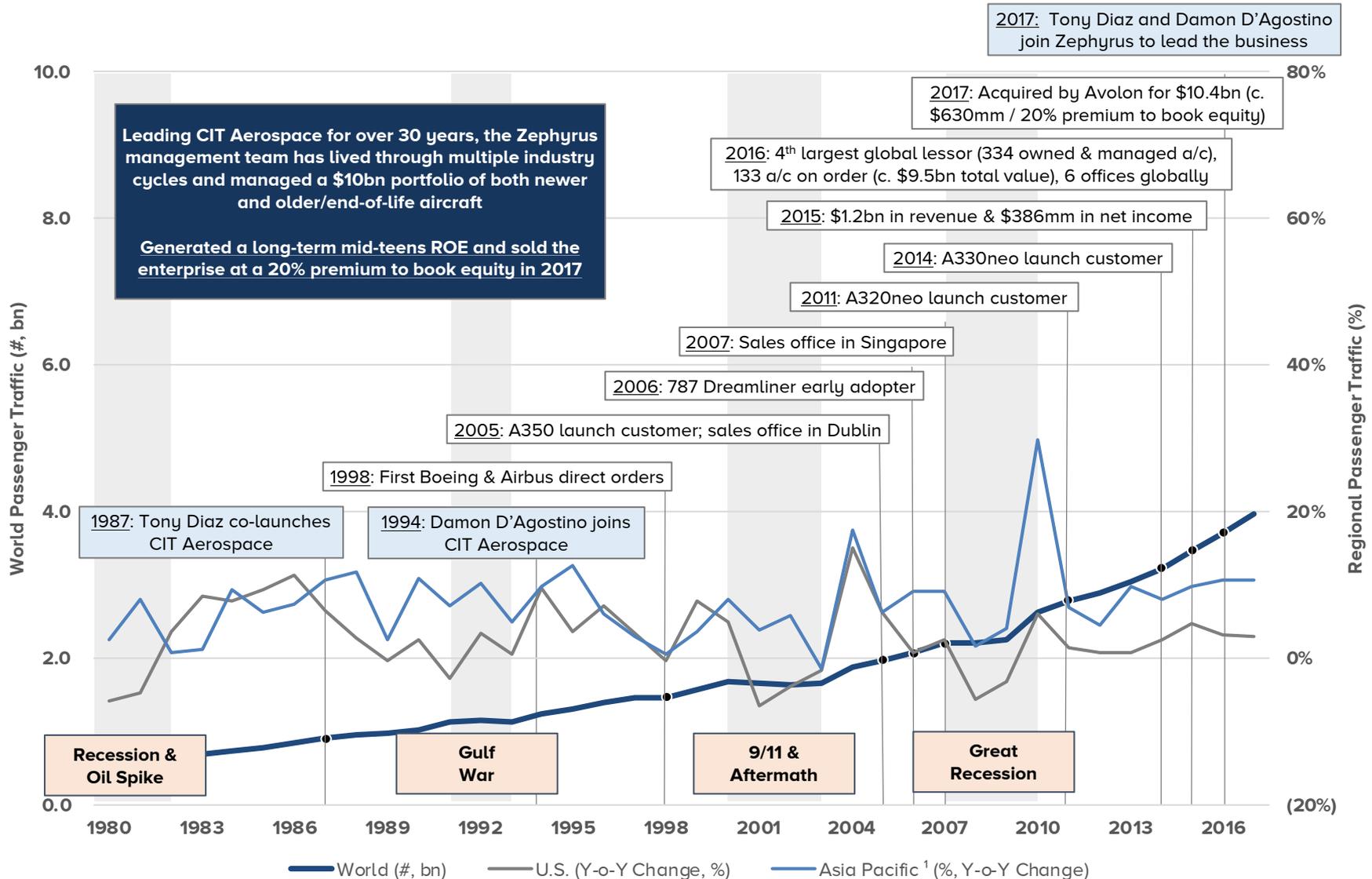
The Zephyrus management team also includes other former CIT Aerospace management professionals – together with Tony and Damon managed a \$10+ billion aircraft lessor

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- ❖ Over 850 aircraft sales, leases and new deliveries
  - ❖ Relationships with over 150 distinct airlines
  - ❖ Completed 65 sale/leaseback transactions with airlines
  - ❖ Average aircraft portfolio utilization of over 99%
  - ❖ Established entry into 49 new countries
  - ❖ 120 new aircraft purchases with OEMs valued at \$20 billion

**STRONG INDUSTRY RELATIONSHIPS – SOURCING AND  
MAXIMIZING AIRCRAFT AND ENGINE PROFITABILITY  
TRACK RECORD OF 20+ YEARS OF WORKING TOGETHER**

# ZEPHYRUS MANAGEMENT TEAM

## CIT AEROSPACE HISTORY



Source: International Civil Aviation Organization, Civil Aviation Statistics of the World, and ICAO staff estimates from the World Bank database

<sup>1</sup>Asia Pacific includes China, India, and Australia, among other countries in the region

# CASE STUDY – PROJECT MAVERICK (COMPLETED)

## PRIVATELY-NEGOTIATED LESSOR SOLUTION

### OVERVIEW

- ❖ 21 aircraft: 18 narrowbody and 3 widebody aircraft
- ❖ A320, B737-NG and A330 family aircraft
- ❖ Average aircraft age of 13 years / average lease term of less than 3 years
- ❖ Diversified by airline – 19 different airlines
- ❖ Diversified by geography – 14 different countries with a heavy focus on North America, Asia-Pacific, and Europe
- ❖ Lease rate factor of 1.31 or >15% cash-on-cash yield on a portfolio basis

### STRATEGY

- ❖ Active aircraft and lease management
- ❖ Early trading of on-lease aircraft, releasing aircraft upon existing lease maturity, engine trading and/or part-out of aircraft components

### BASE CASE TARGET RETURNS

- ❖ Unlevered IRR / MOIC: 13% / 1.3x
- ❖ Levered IRR / MOIC: 17-20%+ / 1.4-1.7x (excluding any capital recycling within ZAP)
- ❖ Minimum cash-on-cash yield (levered): 8%

### EXPECTED DURATION

- ❖ Full return of principal within 30 months

# CASE STUDY – PROJECT SKY (IN PROCESS)

## ENGINE & COMPONENT TRADING | AIRLINE SOLUTION

### OVERVIEW

- ❖ Two B747-400 freighters off-lease from an Asian carrier
- ❖ Asset package represents two airframes and eight engines
- ❖ No leverage to be used for this transaction

### STRATEGY

- ❖ Acquire the two off-lease aircraft for ultimate access to the airframes and engines
- ❖ Immediate sale of the two airframes to an identified freighter carrier in the Middle East – Zephyrus will offer twelve month financing at an approximate 16% interest rate / Zephyrus retains title of the airframes until the financing is paid in full / carrier shall perform a heavy maintenance check on the airframes that adds value to the airframes
- ❖ Immediate light repair of select engines with subsequent short-term lease to the same freighter carrier in the Middle East – expected average engine lease duration of approximately 12 months / part-out of 'tired' engines thereafter

### BASE CASE TARGET RETURNS

- ❖ Unlevered IRR / MOIC: 49% / 1.5x

### EXPECTED DURATION

- ❖ Full return of principal within 15 months / residual cash flow (100% profit) through month 54 (longest lease of 48 months)
- ❖ Ability to recycle capital back into the Zephyrus platform

# ZEPHYRUS ORGANIZATIONAL OVERVIEW



**TONY DIAZ**

**Virgo Operating Partner  
Chairman**

**GARY KRAUTHAMER**

Virgo Partner / Director

**MARK PEREZ**

Virgo Partner / Director

**YIBAI LI**

Virgo Senior Associate

**DAMON D'AGOSTINO**

President & CEO

**ROBERT MEADE**

Chief Commercial Officer

**RICHARD GENGE**

Vice President

## SERVICES & CAPABILITIES

Origination /  
Marketing

Legal

Technical

Lease  
Management

Finance,  
Accounting &  
Operations

Risk



# VIRGO: STRONG TRACK RECORD IN AVIATION AND IN BUILDING NICHE, ASSET-BASED BUSINESSES

## STRONG TRACK RECORD OF REALIZATIONS IN AVIATION

- ❖ Founded in 2009, Virgo is a private investment firm targeting niche, asset-based and structured equity investments. Virgo has an established track record of building businesses
- ❖ Led by Virgo Founding Partners Mark Perez and Gary Krauthamer, aviation is a core area of expertise and focus

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## ACCESS WITHIN THE AVIATION INDUSTRY

- ❖ Virgo Founding Partner Gary Krauthamer has developed deep relationships across a broad network of C-suite aviation executives over 30 years working in the sector (e.g., Airbus, Boeing, Delta, GE, JetBlue, AerCap)
- ❖ Gary has a 20 year relationship with Tony Diaz, who was recruited as Chairman to build out the management team for the next phase of the execution of the Zephyrus business plan

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## EXPERTISE IN PLATFORM MANAGEMENT AND GROWTH

- ❖ Virgo has demonstrated experience and expertise in launching and growing niche, asset-based platforms
- ❖ Virgo will continue to control the Zephyrus board and all major decision making within the platform

# ZEPHYRUS POSITIONING

## MARKET CYCLE CONSIDERATIONS

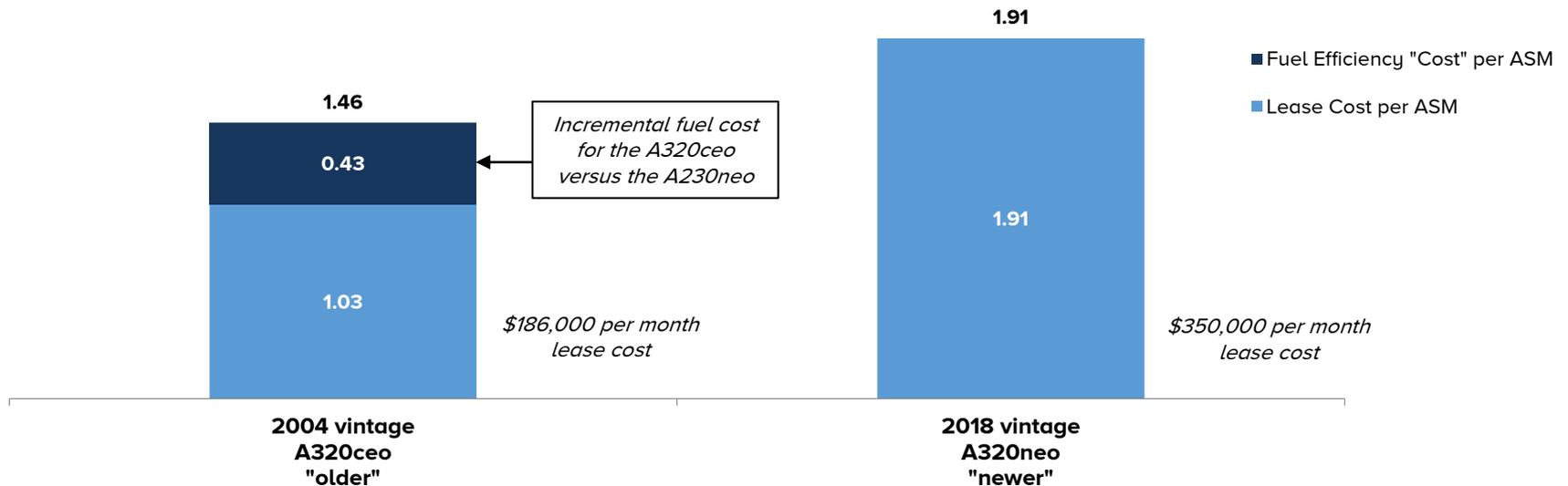
<b>COUNTER-CYCLICAL DEMAND DRIVERS</b>	<ul style="list-style-type: none"><li>• Older and end-of-life aircraft is the least cyclical segment of the aviation market</li><li>• In the event of a market downturn, airlines tend to defer and/or cancel new aircraft orders and extend the life of their existing fleets</li><li>• Extending existing fleets supports (i) older aircraft lease values and (ii) the need for spare parts which positively impacts older aircraft residual values (supports part-out values)</li></ul>
<b>DOWNSIDE PROTECTION</b>	<ul style="list-style-type: none"><li>• Older aircraft are depreciated and closer to their underlying part-out value</li><li>• Older aircraft leases generate a higher cash yield than newer aircraft – quicker return of principal to de-risk capital invested over time</li><li>• Multiple exit optionality for older aircraft not solely dependent on the underlying lease (release) market</li></ul>

# ZEPHYRUS POSITIONING

## NEW VS. OLDER AIRCRAFT UNIT ECONOMICS

- ❖ New aircraft (ex. A320neo) carry a higher monthly lease rate but advertise higher fuel efficiency
- ❖ Older and end-of-life aircraft (ex. A320ceo) present an attractive fleet option for airlines in an environment of oil prices below \$100/barrel (lower operating cost but with similar revenue potential)

### ILLUSTRATIVE AIRCRAFT UNIT ECONOMICS TRADE-OFF – FUEL + LEASE COST



- ❖ A320neo lease operating costs are over 30% higher than that of an A320ceo on a fuel efficiency adjusted basis
- ❖ Fuel prices would have to increase above \$110/barrel or lease rates on the A320neo would have drop by more than 25% to reach lease operating cost parity with an older aircraft
- ❖ Under a 25% lease rate decrease for the A320neo, the cash yield on the aircraft would be approximately 6% (0.5 lease rate factor, non-economic lease rate for a lessor) – net of depreciation and leverage, the implied levered IRR would be negative
- ❖ **Given the material discount in lease rates but similar revenue potential, older aircraft represent a more attractive option for lessees under a downturn than newer aircraft – recession resistant characteristics for older aircraft**

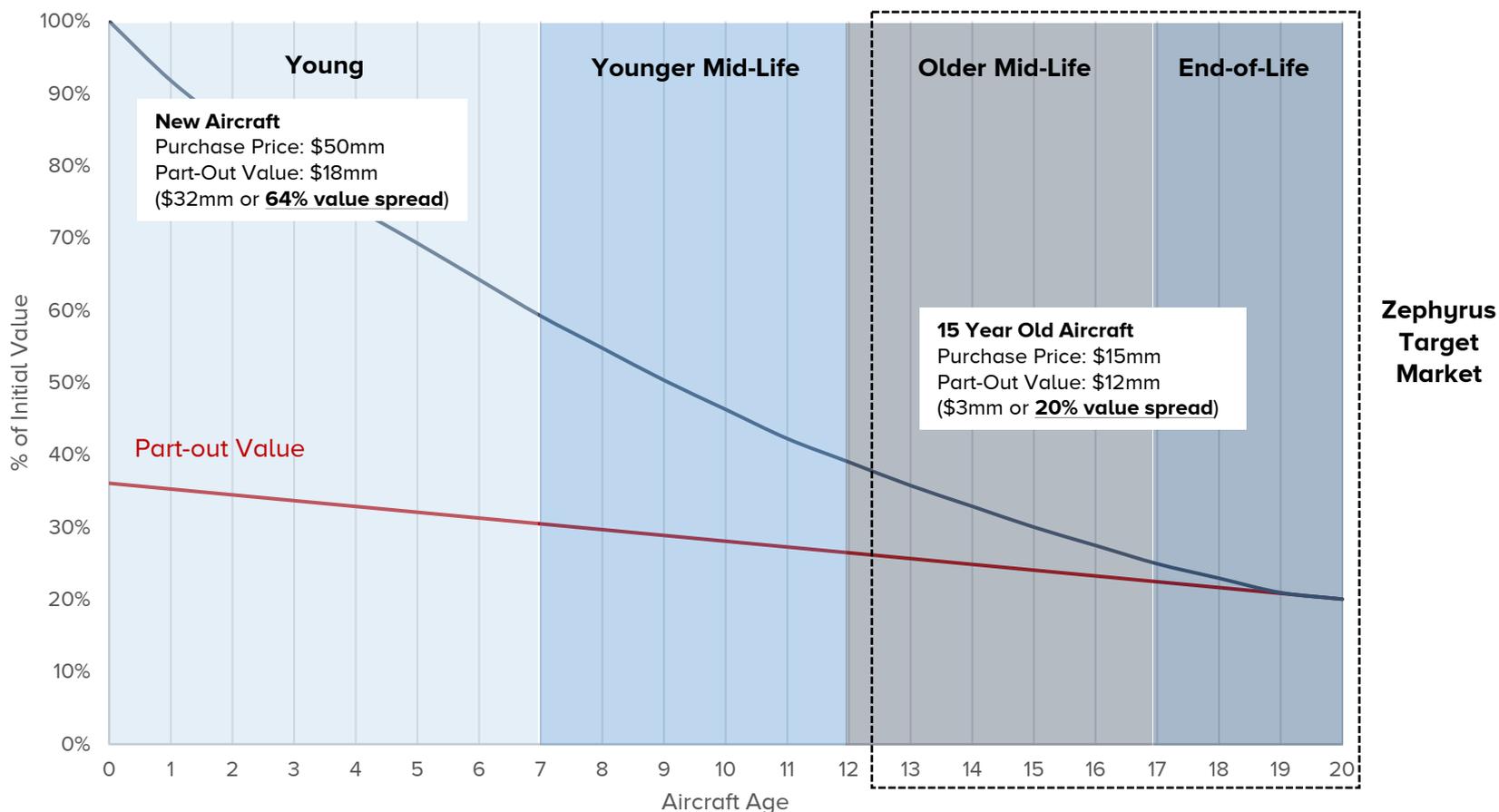
Source: JetBlue 2017 annual report, fleet details, IBA Values and Lease Rates (January 2018). ASM defined as available seat mile or industry metric for unit of revenue potential

# ZEPHYRUS POSITIONING

## VALUE FLOOR FOR OLDER / END-OF-LIFE AIRCRAFT

- ❖ Newer aircraft have the highest spread between market value and part-out value – value is dependent on prevailing lease rates as part-out is not a realistic monetization option
- ❖ Older and end-of-life aircraft have market values closer to their part-out value – lower downside risk with a ‘floor’ valuation via parts

**ILLUSTRATIVE AIRCRAFT RESIDUAL VALUE CURVE**



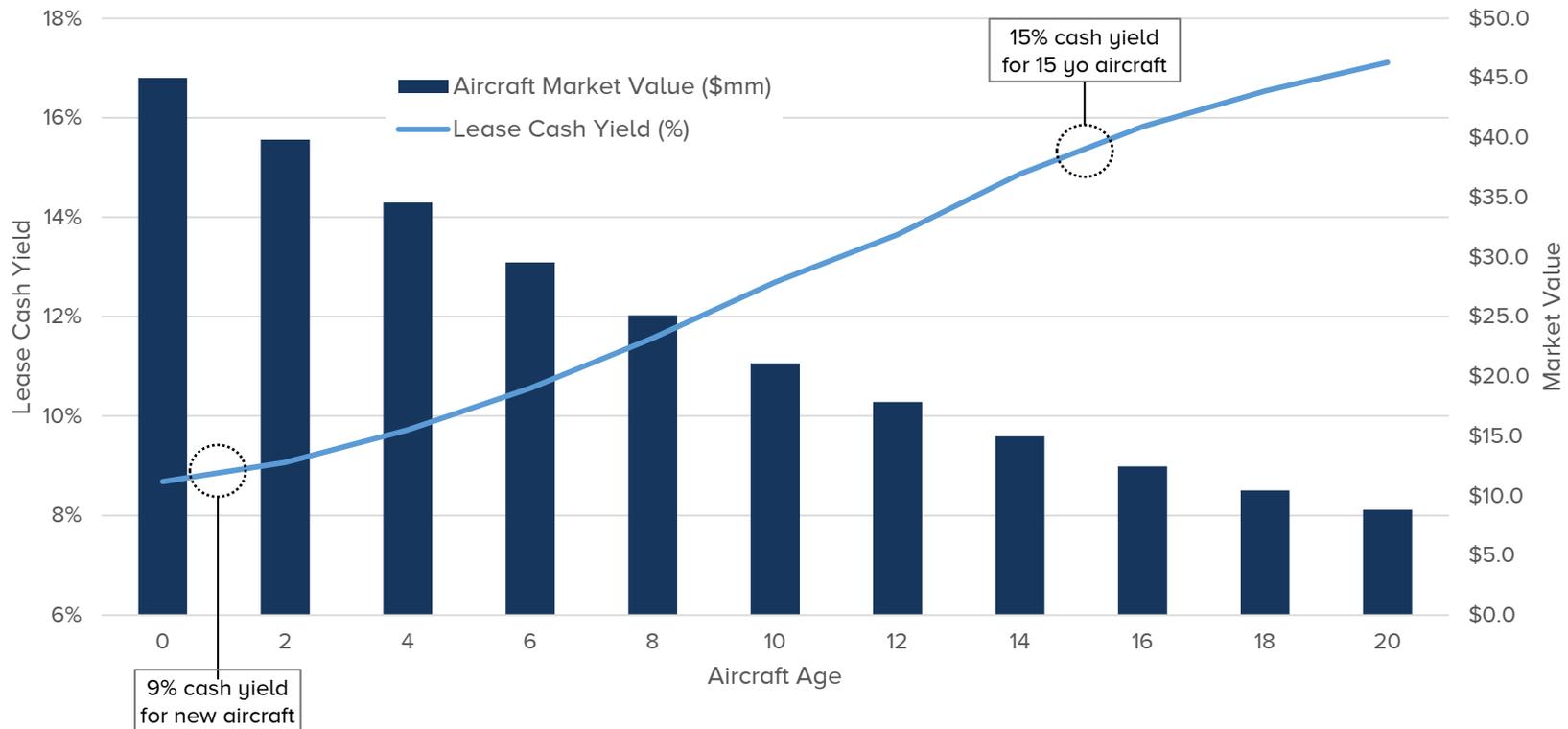
Source: IBA Values and Lease Rates (January 2018) and Virgo estimates based on the A320 platform

# ZEPHYRUS POSITIONING

## LEASE RATE DYNAMICS FOR OLDER / END-OF-LIFE AIRCRAFT

- ❖ As an aircraft ages, the Lease Rate Factor – the monthly lease rate divided by aircraft value – increases which results in a more attractive cash yield for owners of older and end-of-life aircraft
- ❖ This higher cash yield (relative to asset acquisition cost) provides additional downside risk protection – faster return of principal

### ILLUSTRATIVE LEASE CASH YIELD BY AIRCRAFT VINTAGE



Source: IBA Values and Lease Rates (January 2018) and Virgo estimates based on the A320 platform

# LONG-TERM MARKET OPPORTUNITY

## SHIFTING INDUSTRY DYNAMICS CREATES OPPORTUNITIES FOR OLDER / END-OF-LIFE AIRCRAFT PLAYERS

- ❖ Traditional aircraft lessors continually shed older aircraft from their portfolios to keep their average fleet age down, to raise capital to fund their order books, and to avoid dealing with ongoing aircraft maintenance requirements or end-of-life issues. These are the assets that Zephyrus has and is targeting
- ❖ Older and end-of-life aircraft require specific technical experience and relationships to successfully monetize assets at a critical inflection point in their life cycle (release, trade, exchange, part-out)
- ❖ The industry has seen a large influx of capital over the last several years. 'Hot money' capital providers with limited aviation expertise have acquired newer aircraft and will be seeking monetization events to avoid lease maturity events as these aircraft age (e.g., aircraft redeliveries and/or lease defaults)

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## LARGE TARGET MARKET COMPRISED OF FAIRLY LIQUID OLDER / END-OF-LIFE AIRCRAFT

- ❖ Of the ~3,700 older narrowbody aircraft owned by lessors, Virgo estimates that ~600 are projected to come off lease each year over the next five years – addressable market targeted by Zephyrus
- ❖ ~4,300 older narrowbody aircraft are owned by airlines (54% of the global fleet). Virgo anticipates the number of such aircraft owned by airlines to decline as airlines continue to focus on their core passenger business versus management of aviation portfolios – Zephyrus is well positioned to capitalize on sale/leaseback opportunities for these older and end-of-life aircraft



# ZEPHYRUS AVIATION PARTNERSHIP TERMS

As part of its ongoing partnership with Virgo, the State of RI has the option to invest in ZAP in an amount up to its commitment size in Virgo fund VSP IV on a Management Fee-free, Incentive Fee-free basis

<b>Partnership Target Size</b>	\$200+ mm (>\$100 million raised)
<b>Subscription Period</b>	6 months with a 6 month extension at GP's option
<b>Investment Period</b>	18 months following final closing with a 6 month extension at GP's option
<b>Term</b>	5 year target duration with a 1 year extension by GP and 1 year by Advisory Board
<b>Management Fee</b>	Greater of 0.75% on Committed Capital and 1.50% on Invested Capital
<b>Minimum Subscription</b>	\$5 million
<b>Incentive Fee</b>	20% over 8% preferred return, full catch-up
<b>Net Target IRR</b>	15%
<b>Net Target MOIC</b>	>1.5x
<b>GP Commitment</b>	1%
<b>Auditor</b>	Deloitte & Touch
<b>Legal Counsel</b>	Seward & Kissel LLP

# ZEPHYRUS SUMMARY

## CYCLE RESILIENT BUSINESS MODEL

- ❖ The Zephyrus strategy benefits during economic slowdowns as airlines cancel or defer new aircraft orders in favor of extending their existing fleet, causing a greater need for both older aircraft and the maintenance of aircraft engines in their fleet – counter-cyclical demand drivers

## DOWNSIDE PROTECTED RETURNS

- ❖ Part-out value ‘floor’ for older and end-of-life aircraft plus higher lease cash yields compared to newer aircraft typically provide residual value protection and faster return of principal

## DIFFERENTIATED SOURCING WITH ACTIVE PIPELINE

- ❖ The ZAP platform identifies and completes proprietary investments not otherwise available to the broader market – ZAP “creates” transactions, it does not “buy the market” as evidenced by completed deal and identified near-term pipeline opportunities representing \$200 million of equity capital

## ATTRACTIVE TRACK RECORD & MANAGEMENT EXPERTISE

- ❖ The Zephyrus aviation business line has been active since 2012 and realized a 24% gross IRR and 1.7x gross MOIC for Virgo fund VSP III<sup>1</sup>. The Zephyrus management team have been acquiring, leasing, and trading aircraft since 1987, previously through building up CIT Aerospace to its ultimate sale in 2017

## ATTRACTIVE RISK-ADJUSTED RETURNS COMPARED TO CASH FLOW CREDIT

- ❖ Zephyrus is a cash-yielding, asset-based platform, focused within the least cyclical segment of the aviation market, and benefits from ongoing aircraft fleet rebalancing needs. Air travel is a global marketplace with a long-term growth trend in passenger traffic / modest dips in recessions



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# APPENDIX



# LONG-TERM INDUSTRY / MACRO TRENDS

# BROAD INDUSTRY / MACRO TRENDS

<p><b>Industry is Resilient and Growing</b></p>	<ul style="list-style-type: none"> <li>• IATA forecasts air travel (passenger growth) to expand by 7% in 2018 and 5.5% on average over the next 20 years</li> <li>• Aircraft demand / orders have demonstrated resilience through economic cycles (1987 recession, Gulf War, 9/11, Great Recession)</li> </ul>
<p><b>Aircraft Demand is Expanding</b></p>	<ul style="list-style-type: none"> <li>• Global passenger growth is driving demand for aircraft of all types – positive correlation to global GDP growth</li> <li>• Demand for narrowbody aircraft is at an all-time high, with backlogs at record numbers</li> </ul>
<p><b>Limited Spare Capacity</b></p>	<ul style="list-style-type: none"> <li>• OECD airlines have successfully ‘right sized’ their fleets since 2009 resulting in high utilization levels (load factor of over 80%)</li> <li>• Less than 0.5% of the global narrowbody fleet was listed as available for sale (‘naked’ without a lease) or lease as of 2Q 2018</li> </ul>
<p><b>Older Aircraft Benefit from Low Oil Prices</b></p>	<ul style="list-style-type: none"> <li>• Low oil prices are keeping older aircraft in service longer, buoying their residual values</li> <li>• Spare parts market is tight based on longer operational lives (demand) and later retirements (supply) of older aircraft</li> </ul>
<p><b>Older Aircraft Leasing and Trading is Robust</b></p>	<ul style="list-style-type: none"> <li>• An average of 318 narrowbody aircraft within the 10-18 age range have been bought and sold per year since 2015</li> <li>• Growing number of opportunities to execute sale / leaseback transactions for older aircraft with airlines</li> </ul>

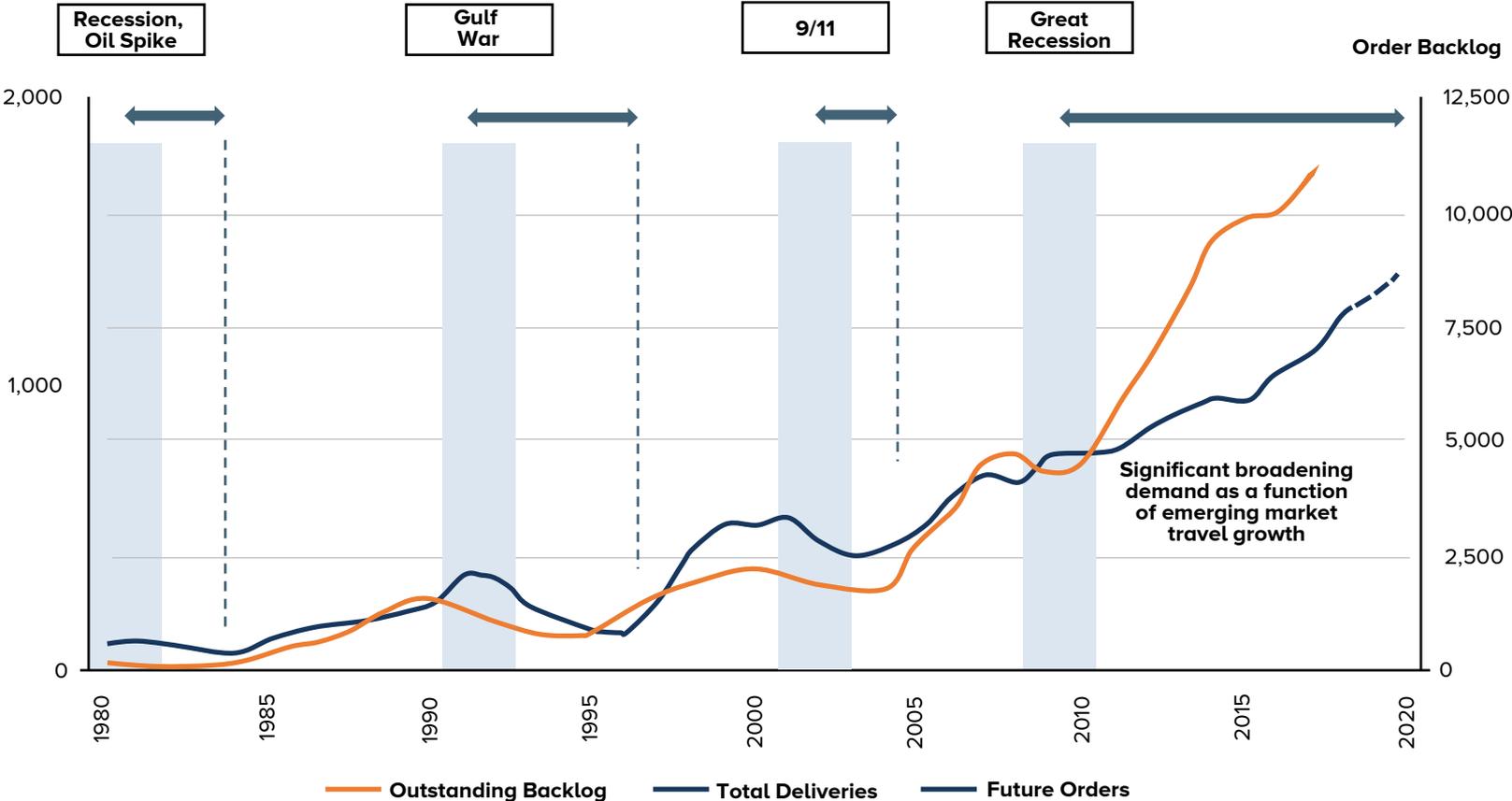
## STRONG INDUSTRY FUNDAMENTALS SUPPORT A FLEET MANAGEMENT SOLUTIONS STRATEGY FOCUSED ON OLDER AND END-OF-LIFE AIRCRAFT

# AIRCRAFT & AVIATION INDUSTRY GROWTH

**NARROWBODY ORDER BOOK HAS GROWN CONSISTENTLY OVER TIME DESPITE SETBACKS FOLLOWING MAJOR ECONOMIC SHOCKS – RESILIENCE ACROSS MARKET CYCLES**

## NARROWBODY DELIVERIES

Number of Aircraft Per Year



Note: Includes only A320 and B737 family aircraft  
Source: Ascend

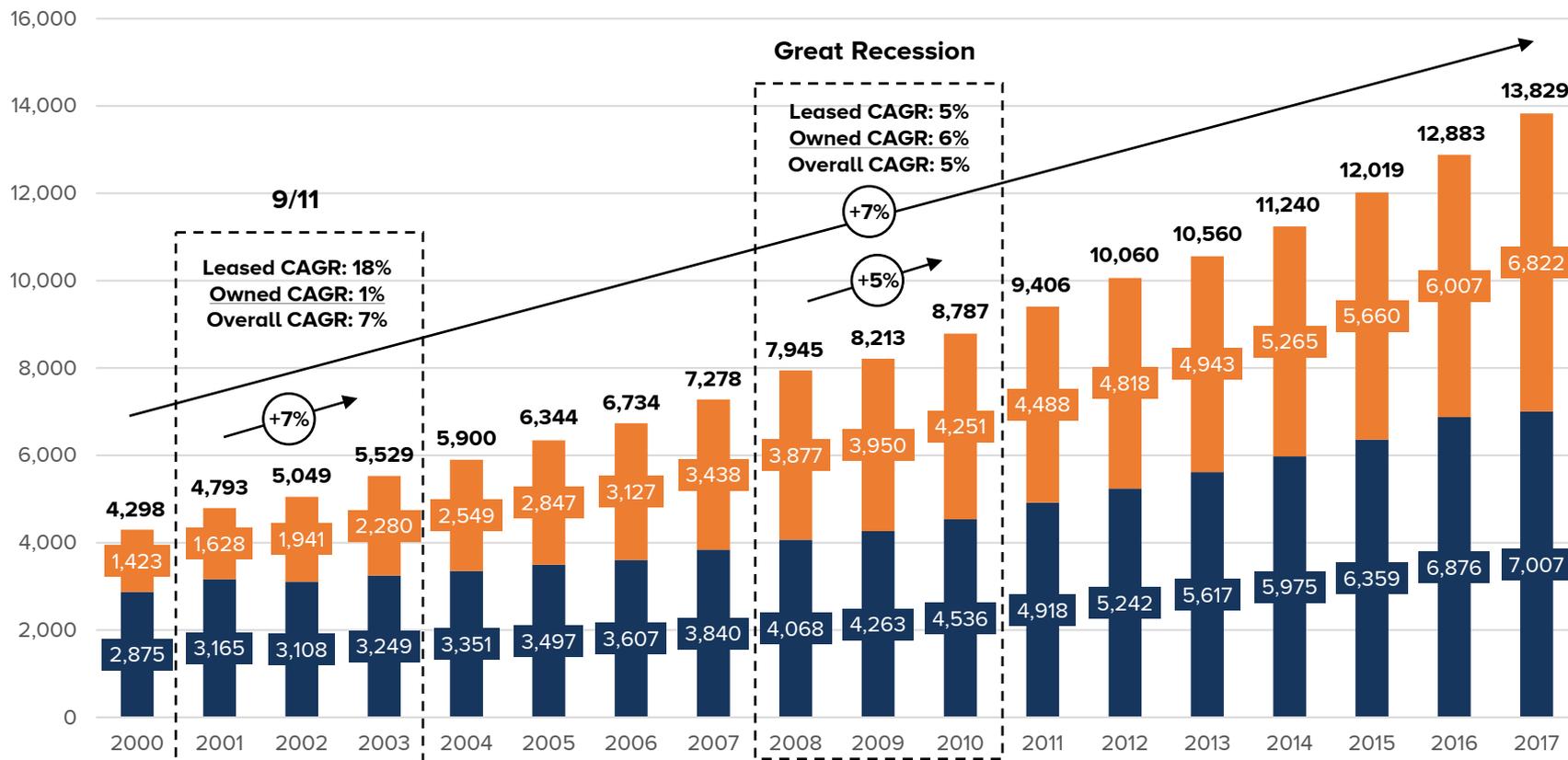
# AIRCRAFT & AVIATION INDUSTRY GROWTH

## RESILIENCE THROUGH ECONOMIC CYCLES

GLOBAL NARROWBODY FLEET HAS GROWN CONSISTENTLY AT A 7% CAGR SINCE 2000, INCLUDING 10% GROWTH IN LEASED AIRCRAFT. LEASED AIRCRAFT CONTINUED TO GROW EVEN DURING MAJOR ECONOMIC DOWNTURNS

### TOTAL IN-SERVICE NARROWBODY FLEET

Aircraft by Owner

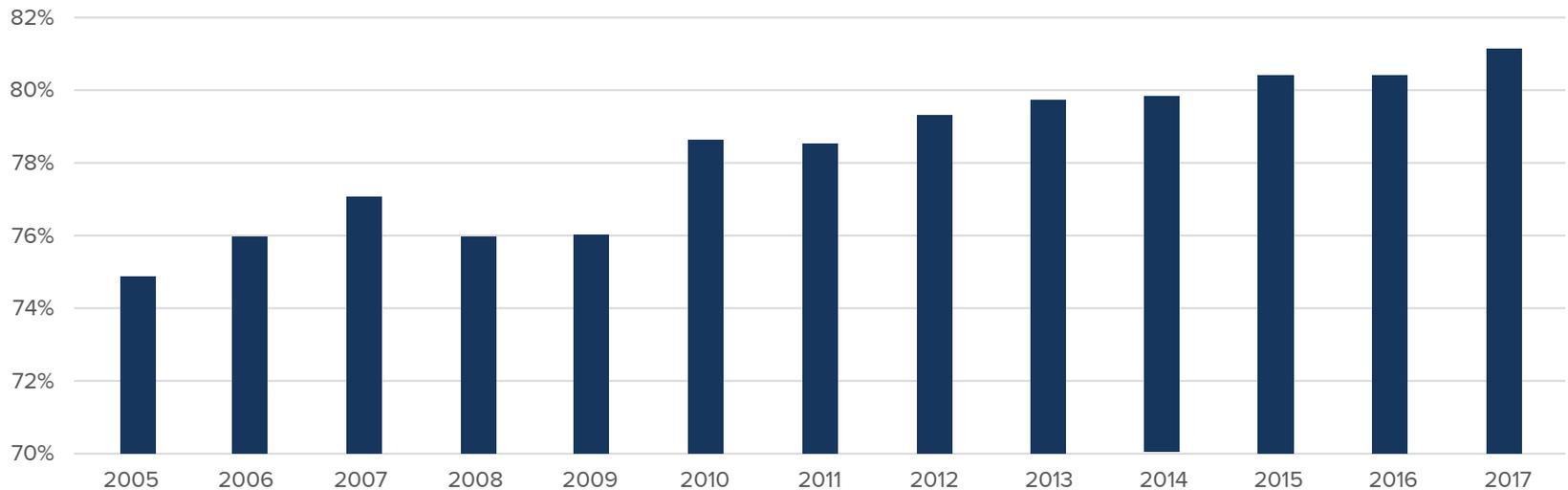


Note: Includes only A320 and B737 family aircraft  
Source: Ascend

# AIRCRAFT & AVIATION INDUSTRY

## GLOBAL FLEET UTILIZATION

### GLOBAL LOAD FACTOR



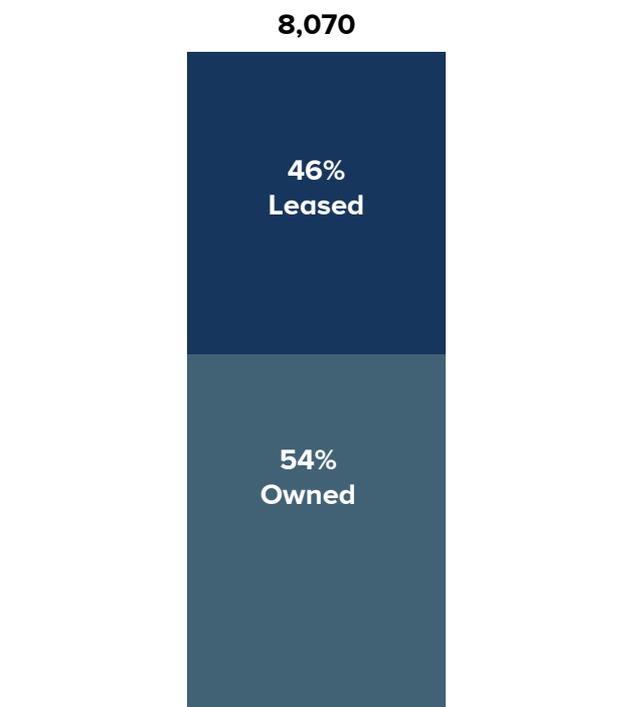
**AIRLINES HAVE PROACTIVELY AND SUCCESSFULLY RATIONALIZED THEIR CURRENT FLEETS RESULTING IN GREATER THAN 80% LOAD FACTOR (HIGH AIRCRAFT UTILIZATION) – LIMITED SPARE CAPACITY IN AIRLINE FLEETS TO ACCOMMODATE FURTHER PASSENGER TRAFFIC GROWTH**

Source: IATA Air Passenger Monthly Analysis

# OLDER AIRCRAFT MARKET DYNAMICS

THE ADDRESSABLE MARKET IS LARGE AND WILL CONTINUE TO GROW AS AIRCRAFT ARE KEPT ACTIVE LONGER

## 10 to 18 Year-Old Aircraft<sup>1</sup> Currently in Service



- ❖ More than 8,000 aircraft are currently over 10 years of age, of which ~4,300 are owned by airlines – these aircraft are ripe for potential sale / leaseback transactions
- ❖ Trend is for airlines to shed older aircraft – less focused on economic ownership of those assets
- ❖ Of the ~3,700 aircraft owned by lessors, 500-600 per year of the right type / age for acquisition are projected to be available for acquisition over the next five years
- ❖ Trend is for large, traditional lessors to shed older aircraft from their portfolios (focus on keeping average age down and avoid the ‘hassle’ of having to deal with older aircraft)

<sup>1</sup>includes regional aircraft (CRJ Family and E-Class Jets)  
Source: Seabury analysis and Ascend as of June 2018

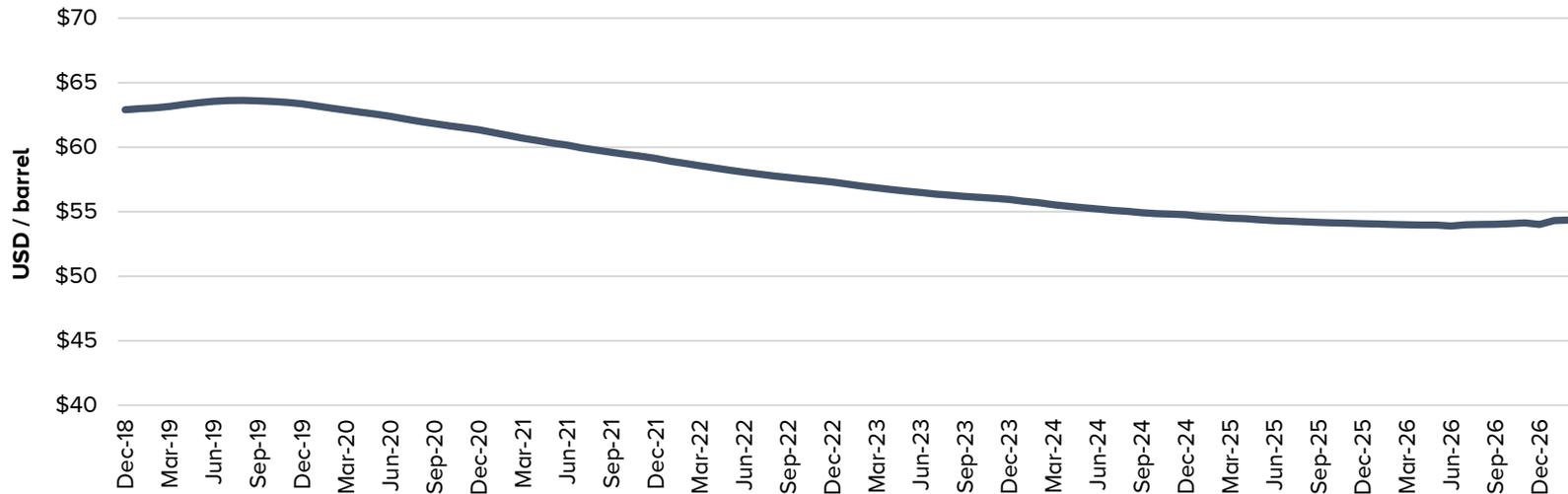
# OLDER AIRCRAFT MARKET DYNAMICS (CONT'D)

## AIRLINE FLEET TRENDS

### Compelling Value Proposition of Older Aircraft to Airlines

- ❖ Airlines are extending in-fleet aircraft at near record levels
- ❖ Airlines are also delaying the delivery of new, more fuel-efficient aircraft as the operating economics of older aircraft have become more attractive on a relative basis (e.g., American and its B737-MAX order, Lufthansa and its A320neo order)
- ❖ Long-term low fuel prices are sustaining the marketability and residual values of older aircraft – high operational demand and slower pace of retirements
- ❖ Oil prices are expected to stay well below the \$100/barrel range with the forward curve moving down to below \$55/per barrel by 2027

### NYMEX CRUDE OIL FORWARD CURVE



Source: Crude Oil, WTI (NYMEX) forward curve, Bloomberg (November 5, 2018)

# CREDIT COUNTERPARTY RISK MANAGEMENT

## KEY ACTIVITIES

### Airline Assessment

- Repeatable and consistent process to assess commercial counterparty risk
- Quantitative assessment (financials, fleet plan)
- Qualitative assessment (management team, business strategy)
- Credit Scoring Model (1-4) developed by the management team (consistent with former CIT Aerospace practices)
- Identification of key 'watch' areas (risks and opportunities)

### Portfolio Monitoring

- Airline / country / region concentration thresholds
- Avoidance of and/or limitations within certain jurisdictions
- Formal review of portfolio performance and composition, minimum on a quarterly basis
- Up to date industry monitoring
- Active lease monitoring and management to address potential risks early

### Airline Monitoring

- Defined asset/jurisdiction monitoring plan
- Regular updating, minimum on an annual basis
- Regular customer on-site visits
- Lease payment monitoring
- Review of financial management
- Review of business plan execution

### Watch List and Remedial Management

- Active management of a credit Watch List established by the management team
- Monitoring of counterparties with a higher probability of potential lease underperformance / default
- Proactive remedial management as needed
  - Lease restructuring
  - Pre-emptive asset remarketing
  - Early redeployment
  - Repossession management

# ZEPHYRUS LEADERSHIP

# ZEPHYRUS TEAM BIOGRAPHIES



**GARY KRAUTHAMER**  
Virgo Founding Partner / Zephyrus Director

Gary is a Founding Partner of Virgo Investment Group, focused on building strategic sourcing relationships and cultivating the firm's network for executive operating partners.

Gary founded Krauthamer & Associates in 1971 and has personally completed more than 1,000 search assignments throughout North America, Europe and Asia. Over the last 30 years, Gary has worked extensively within and across the public and private sectors and has developed a diverse client base that includes the aviation and aerospace industry, the federal government, entrepreneurial organizations, middle-market entities and large multi-national Fortune 100 corporations. Through Krauthamer & Associates search assignments, Gary has a deep network of aviation executives spanning major airlines, OEMs, lessors, and aerospace service providers.

Gary is a member of various committees of the American Public Transportation Association and serves on the Board of Governors of the Wings Club. He is currently the Chairman of the Omega Institute and is a member of the Social Venture Network. Gary graduated from the American University's Kogod School of Business with a degree in finance.



**MARK PEREZ**  
Virgo Founding Partner / Zephyrus Director

Mark is a Founding Partner of Virgo Investment Group and leads the firm's niche industrials practice, including investments in aviation. Mark is also a member of the Virgo investment committee.

At Virgo, Mark has led the firm's aviation investments since 2010, which has included mid-life narrowbody and widebody aircraft leasing, newer aircraft sale leasebacks, out-of-production aircraft trading, and standalone engine leasing and trading. Mark launched the Zephyrus aviation investment strategy focused specifically on older and end-of-life aircraft leasing and trading in 2012.

In addition to aviation, Mark has over fifteen years of experience in various financial, operational, and regulatory roles within several industrial sectors, including energy/materials and chemicals. Prior to joining Virgo, Mark worked in the investment banking division at Goldman Sachs in New York. He was a member of the firm's Global Natural Resources group. Prior to joining Goldman Sachs, Mark was a Strategic Marketing Manager at ChemPoint, the start-up specialty chemical distribution subsidiary of Univar USA. Mark also spent three years with the U.S. Environmental Protection Agency as an assistant project manager within the Office of Science and Technology.

Mark earned his BS in chemical engineering from the Johns Hopkins University and received an MBA with finance specialization from New York University's Leonard N. Stern School of Business, graduating with honors as a Stern Scholar.

# ZEPHYRUS TEAM BIOGRAPHIES



**TONY DIAZ**  
Chairman

Mr. Diaz was President of CIT Aerospace. Also previously serving as an Executive Vice President of CIT Aerospace, Mr. Diaz was associated with subsidiaries and affiliates of CIT from 1987 through 2017. At CIT, he was responsible for running CIT Aerospace, which consisted of 467 commercial aircraft in total, valued at approximately \$10 billion dollars of owned, managed and committed aircraft. From 1981 to 1987, he was employed by People Express Airlines (which was subsequently merged into Continental Airlines) in a variety of operational and financial capacities. Prior to 1981, he was employed by Cessna Finance Company, primarily involved in aircraft finance. He has also served as a Director of CIT Aerospace International Ltd.

Mr. Diaz holds a Bachelor of Science degree from Embry-Riddle Aeronautical University and an Associate of Science degree from the State University of New York at Farmingdale.



**DAMON D'AGOSTINO**  
President & Chief Executive Officer

Mr. D'Agostino was Chief Commercial Officer for CIT Aerospace. As Chief Commercial Officer, Mr. D'Agostino was responsible for all aspects of CIT Aerospace's commercial strategy and execution, including aircraft sale and lease transactions, airline relationship management, contract negotiation, restructurings, and new aircraft and engine acquisitions. Prior to that role, he served as Chief Sales Officer, with global responsibility for marketing CIT Aerospace's aircraft portfolio which, by 2017, exceeded 350 aircraft valued at \$11 billion. Under his eleven years of leadership, the business grew by more than 45% while delivering consistent year-over-year profitability growth and maintaining a greater than 99% asset utilization rate through industry peaks and troughs. Starting his career in the early 1990s, Mr. D'Agostino held a successive sales and marketing roles and responsibilities, with his personal transaction success including the sale, lease and financing of over 170 aircraft.

Mr. D'Agostino is a graduate of Embry-Riddle Aeronautical University, where he received a Bachelor of Science Degree in Aviation Business Administration, with a concentration in Finance. He also received an MBA in International Business from the University of Miami where he was summa cum laude and valedictorian of his graduating class.

# ZEPHYRUS TEAM BIOGRAPHIES (CONT'D)



**ROBERT MEADE**  
Chief Commercial Officer

Mr. Meade was the Director of Marketing Strategy and Asset Sales for CIT Aerospace, with responsibilities for directing all activity for CIT's new aircraft order book and existing portfolio, which exceeded 350 commercial aircraft, and managing a team responsible for marketing assets to worldwide buyers. During his career at CIT, Mr. Meade had a variety of roles and responsibilities within the marketing team including U.S. and European airline relationship management, mature and late life asset sales since 2008, transaction and deal team management, airline default and distressed asset resolution, portfolio management, fleet evaluation, and marketing strategy development. During his tenure at CIT Aerospace, Mr. Meade contributed to the successful remarketing of over 275 aircraft to nearly 140 customers in 49 countries while maintaining over 99% fleet utilization rate.

Mr. Meade served in the U.S. Air Force as an Aircraft Armament System Specialist and a campaign badge veteran who earned the rank of Technical Sergeant. He is a graduate of Oklahoma State University in Stillwater, Oklahoma where he earned his Bachelor of Science degree in Aviation with a focus on Management and Marketing. Mr. Meade is a long-time member of the International Society of Aircraft Trading (ISTAT) and serves on education advisory and charitable boards.



**RICHARD GENGE**  
Vice President

Mr. Genge was Assistant Vice President – Marketing & Asset Sales at CIT Aerospace where he was responsible for sourcing opportunities for new and used aircraft lease transactions along with uncovering trading opportunities in the Americas and Europe. Additionally, he was an integral part of a cross-functional team evaluating used aircraft and engines while presenting fleet optionality to maximize asset returns and improving bottomline results. He joins the team with thirteen years of aviation experience, including eight years of sales and marketing experience at CIT Aerospace. Throughout the years, Mr. Genge's responsibilities included airline and sales support for airlines located in North America, South America, and Europe. While at CIT, he was involved in the negotiation of approximately 100 aircraft lease and sales contracts while also administering aircraft leases in specific geographic areas, managing up to 60 aircraft at a time. Furthermore, he managed the deal teams that oversaw lease and MOU negotiations, aircraft deliveries and redeliveries, bankruptcies, and lease restructurings for airlines in the Americas and Europe.

Mr. Genge graduated from Embry-Riddle Aeronautical University, magna cum laude, and received a Bachelor of Science Degree in Aviation Business Administration, with a concentration in Airline Management. He later received his MBA in Aviation Management, with distinction from Embry-Riddle. His native tongue is German, and he is fluent in English and speaks conversational Spanish.

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