- Alt Credit Intelligence - https://hfm.global/altcreditintelligence -

Oz Management bets big on aircraft lease

Posted By *David Graubard* On April 30, 2019 @ 9:14 am In News | No Comments

---

Ten months ago, Oz Management partnered with GE Capital Aviation Services, a dominant player in the global aircraft leasing business, in a $700m ABS freeing up cash by securitising leases on 24 planes to 16 airlines. Now, the New-York based hedge fund and asset manager has closed a repeat deal, valued at $589m.

Oz invested 18-months in the first GECAS transaction, company executives said. In the fast money world of Wall Street, that commitment may seem odd, but aircraft leasing is undeniably a "ton" of work, according to multiple aircraft bankers. By the way, those same aviation bankers are watching a few goliath nonbanks sweep away business, more similar to the leverage loan market than most realize, also thanks to the post-financial crisis tight bank regulations.

Shortly before the closing of its second GECAS transaction, Oz received a $300m check from the $41.5bn state pension, Arizona State Retirement System (ASRS), for an aircraft leasing partnership.

"There are only a handful of players in the aircraft leasing fund management business able to offer big clients scale and managing complex assets like aircraft leases can be much more efficient with the combined equity and credit investment capability most of these firms bring to bear, says Autonomous Research's equity analyst Patrick Davitt who follows Oz Management.

Aircraft financing could present a beacon for the firm's growth, second only to CLOs, as an engine to generate assets under management.

"The underlying aviation market is opaque and requires detailed technical knowledge, which we have developed through our long and diverse investing history," says Akhil Mago, executive managing director and global head of structured finance.

Resilience

The bad news: The company has lost billions in AUM due to litigation and executive departures, including billionaire founder Daniel Och. At its peak in 2015, Och-Ziff, now known as Oz Management, managed $48bn.

The good news: The Och-Ziff master fund remains one of the largest public hedge funds, which returned 7.9% and held $31.5bn in total firm assets as of April, according to its SEC filing. While Oz invests in high-yield, distressed loans to aircraft, analysts and investors want to see diversification. CLOs adds up to approximately $13.5bn of Oz's total assets. Hence why the company has its hopes on more aircraft mandates from pension investors to aircraft ABS lessors.

Competitive advantages narrow the field

There are only a handful of players in the aircraft leasing fund management business are able to offer big clients scale — Apollo Aviation, Castlelake and Oz Management are the most visibly active.

"Managing complex assets like aircraft leases can be much more efficient with the combined equity and credit investment capability most of these firms bring to bear," says Autonomous Research's Davitt.

An example of the scale used for aircraft lease, take Oz's 41 credit professionals who analyse a wide net of potential aircraft investments: individual to commercial jets aircraft, secondary ABS debt and equity. Offering what banks often cannot: financing to airlines, lessors and securitisations. While most asset managers focus on either equity or debt, Oz does both. Equity analysts track public airlines and outside consultants are used for certain aircraft mandates when scale grows.

"Oz is also one of the specialised investors in first-loss equity tranches in aircraft lease securitisations," Mago says. Which is one of the top reasons Oz won its mandate as the asset manager for the STARR transactions.

Liquid aircraft ABS?

The first STARR aircraft ABS structure with Oz was hatched by Deutsche and Citi with several repeatable features, such as 144A/REG S registration increasing secondary liquidity and a dedicated asset manager. One twist to the STARR model is some managers may choose to have an affiliate as their dedicated asset manager.

Deutsche Bank arranged STARR 2 for GECAS, a six-year securitisation of 20 new narrow-body Boeing and Airbus planes that closed on April 18th.

Once again, the STARR structure allows GECAS to sell down its purchase of new planes, financed by the issuance of tradeable 144A debt and equity. GECAS will continue to service the portfolio of new planes as Oz serves the role of asset manager.

"The aircraft sector has over a trillion dollars of total market value, but in the structured finance market it trades thinly as an esoteric asset class," says an aircraft executive familiar with the deal. "The GECAS and Oz ABS transactions are both structured as 144a/REG S deals and registered with DTC. "With Oz's help as the dedicated asset manager and the underwriters making markets we have created more liquidity in the asset class."

Oz's role in the STARR deals involves helping GECAS and investors through reporting, tracking and analyzing the aircraft portfolio to advising the company's board.

Betting big, lending a few billion for planes

Conventional wisdom says the airline leasing industry is poised for growth but can be cyclical and risky.

Oz says the market is underestimating the industry's strength and is accordingly pouring a massive amount of capital — 19.5% of the of first transaction's equity — also known as the class E notes a favorite of the firm — was bought by Oz while providing resources and personnel and structuring expertise into the investment. What impressed GECAS to mandate Oz on STARR was the combination of knowledge and confidence to put "skin in the game," says the aircraft executive.

STARR wasn't Oz's first rodeo. The firm has lent several hundred million dollars to various aircraft leasing and aerospace businesses, and exposure has ranged from a few hundred million to over a few billion dollars over the last five years, according to Mago.

Publicly, GECAS is the only aircraft lessor using the independent dedicated asset manager ABS structure. But one potential hurdle for growth here is the added cost passed on to investors. For instance, the pressure to lower the asset manager's fees and its payment rank hit Oz in the STARR 2 structure.

"We're casting a wide net to build and strengthen our aviation business," says structured credit head Mago, explaining the firm's principal aviation strategy that also includes a hunt for double-digit leveraged returns.

Article printed from Alt Credit Intelligence: **https://hfm.global/altcreditintelligence**

URL to article: **https://hfm.global/altcreditintelligence/news/oz-management-bets-big-on-aircraft-lease/**