



# Investor's Guide to the Global Airline Industry



**U.S. Global ETFs**

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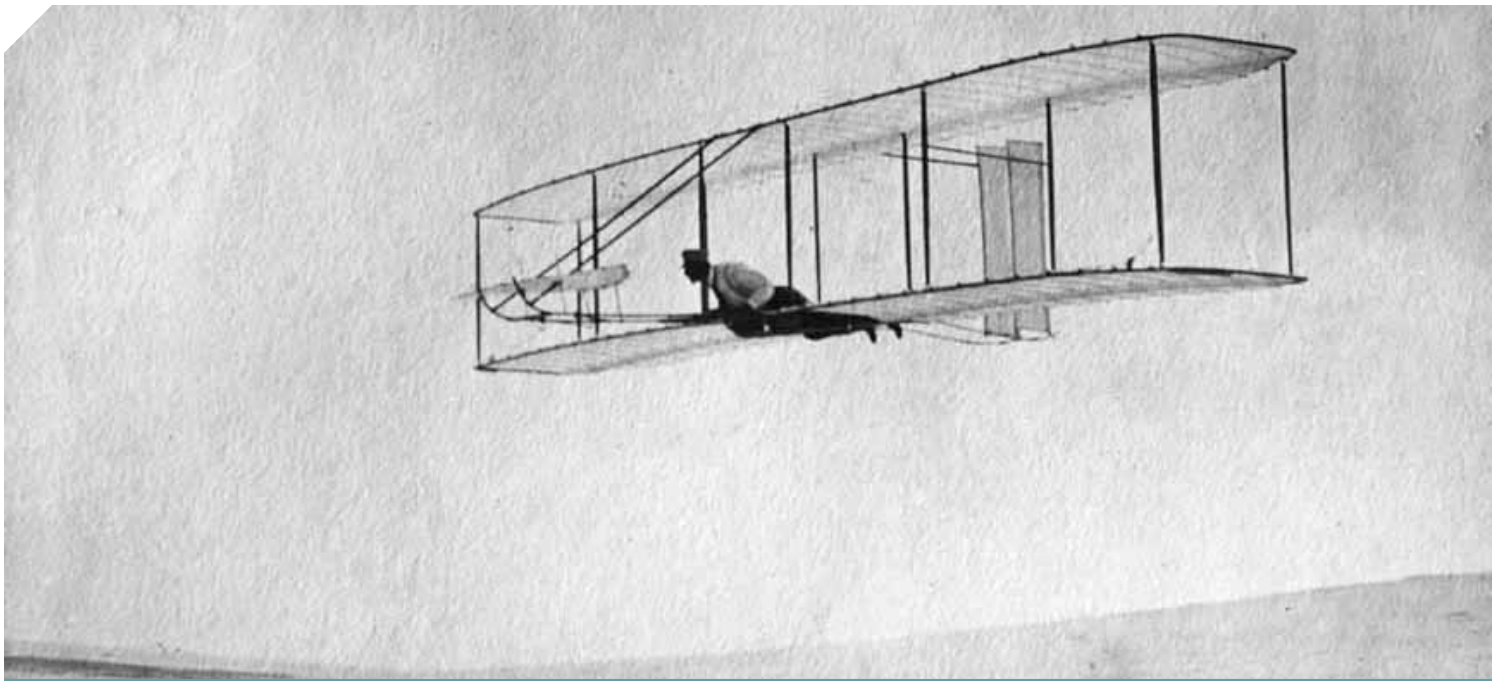
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## EXECUTIVE SUMMARY

- ✈ With more than a decade's worth of restructuring and consolidation, commercial airlines have become lean and efficient, with profitability and free cash flow improving substantially.
- ✈ In the last 10 years, carriers have benefited from debt restructuring, low fuel costs, new revenue streams and middle class growth in emerging markets.
- ✈ Other beneficiaries within the broader airline industry include aircraft manufacturers and airport and terminal services providers.
- ✈ In April 2015, U.S. Global Investors launched the U.S. Global Jets ETF (JETS), the only airline-focused exchange-traded fund (ETF) currently on the market. JETS uses a dynamic rules-based model (smart beta 2.0) that rebalances and recalibrates each quarter.

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**For the past 100 years,** few inventions have changed how people live and experience the world as much as the airplane. Ever since the Wright Brothers made their first flight at Kitty Hawk on a chilly December day in 1903, the plane has captivated passengers, innovators and investors alike.



On January 1, 1914, the St. Petersburg-Tampa Airboat Line became the world's first scheduled passenger airline service. Percival Elliott Fansler, a Florida sales representative for a manufacturer of boat diesel engines, proposed that the plane fly between St. Petersburg and Tampa, Florida, a distance of about 18 miles as the crow flies.

A round trip ticket for the 23-minute flight cost \$10 — or, adjusted for inflation, a little over \$238. It was a short-lived endeavor, lasting only four months. Passengers were flown in a “flying boat” designed by Thomas Benoist (pronounced Ben-Wah), an aviation entrepreneur from St. Louis.

Many other commercial aviation businesses followed, and the industry began to grow globally starting in 1916.

But it was the advent of World War I and World War II that really changed commercial aviation. Because of government subsidies and demand for new and more technically advanced airplanes, the world saw a huge jump in the techniques and materials for aircrafts’ design and construction.

Today, air travel has become so commonplace that it would be hard to imagine life without it. It has changed the way we live and conduct business by shortening travel time and altering our concept of distance, making it possible for us to visit places once considered remote.

Thanks to an impressive safety record, passenger confidence is currently very high. Investor confidence has likewise taken off in the last couple of years as airlines posted improved quarterly earnings reports from a decade ago.

## Investing in Airlines, Past and Present

As a shiny new industry with huge growth potential, airlines initially made many investors excited. Over time, however, they became wary, as financial returns fell far short of expectations. A few investment professionals, most notably Warren Buffett, considered airlines difficult to invest in, claiming they have historically operated irrationally and have always been at the mercy of oil prices, unions and new competition.

But now, if you were not aware of their past and looked just at the current numbers, you'd find airlines very intriguing. What's more, Buffett recently changed his mind about the industry. After deriding it for years, he confirmed that his holding company, Berkshire Hathaway, invested nearly \$1.3 billion in the four big-name domestic carriers: American, Delta, United and Southwest.

Since 2013, airline stock prices have soared. Profitability and free cash flow have grown substantially. With more than a decade's worth of restructuring and consolidation, the airline industry became lean and efficient. New airline management has addressed most legacy problems by focusing on what some refer to as the four C's. Cowen Securities airline analyst Helane Becker sums up the bullish case when she cites the four C's that should propel industry returns: **consolidation**, **capacity** discipline, **charging** for everything and returning **capital** to shareholders. We might also add a fifth C — **cheap** oil.

Another reason for airlines' strength is that most were relieved of their pension obligations from their recent bankruptcies. In 2005, a U.S. federal bankruptcy judge approved a plan by UAL Corporation, the former parent company of United Airlines, to transfer its pension plans, which were underfunded by \$9.8 billion, to the Pension Benefit Guaranty Corporation, which itself is underfunded but backed by the U.S. government.

UAL's move, as expected, spurred similar actions by other so-called legacy carriers among the airlines, which were also squeezed by high costs, competition from airlines without substantial pension obligations and, at the time, high fuel costs.

## Key Terms

### **Available Seat Miles:**

Available seat miles (ASM) or available seat kilometers (ASK) is a measure of an airline flight's passenger carrying capacity. It is equal to the number of seats available multiplied by the number of miles or kilometers flown.

### **Revenue Passenger**

**Miles:** Revenue passenger miles (RPMs) or revenue passenger kilometers (RPKs) are measures of traffic for an airline flight, calculated by multiplying the number of revenue-paying passengers aboard the vehicle by the distance traveled.

**Load Factor:** Load factor is the ratio of revenue passenger miles and available seat miles for an airline.



Since 2013, airline stock prices have soared.



On April 30, 2015, U.S. Global Investors launched a dynamic, rules-based global airline industry exchange-traded fund (ETF) called the U.S. Global Jets ETF (JETS). Two previous long-term airline ETFs closed — one in October 2011, the other in March 2013 — before airline stock performance had a chance to pick up following the last round of bankruptcies. Unlike these funds, JETS is diversified, in that it has additional exposure to global airlines as well as the airport services and aircraft manufacturing subindustries.

## Airlines Have Had Unique Challenges, Welcome Windfalls

So what are the challenges of running an airline? According to Airlines for America, labor is an airline's number one cost. Companies must pay pilots, flight attendants, baggage handlers, dispatchers, customer service representatives and more. Fuel is the industry's second-largest expense. Efficiency among different carriers, however, can vary widely.

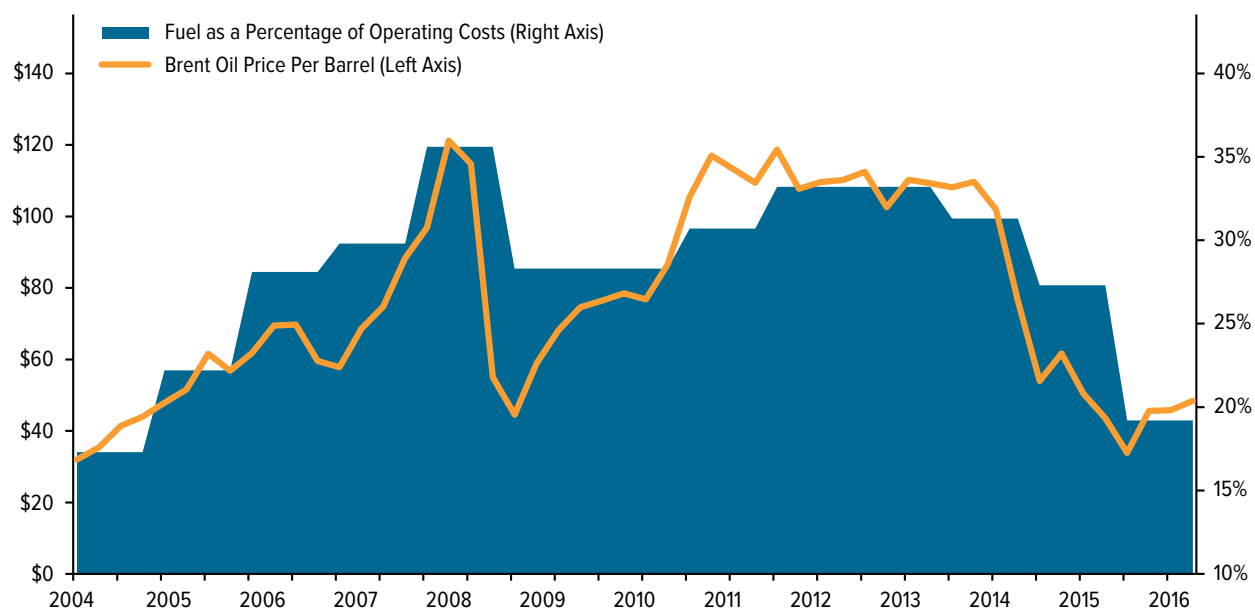
Beyond labor and oil, airlines must deal with a host of other issues, including unions, increased competition, airport capacity, route structures, competitive seat prices, technology upgrades and costs to lease or buy the physical aircraft, not to mention how to finance them.

Arguably, no other industry besides energy is as beholden to oil prices as the airline business. Some airlines hedge their oil exposure in the futures market. That means they lock in barrels of oil at a set price for a few years into the future in anticipation of oil prices rising. Not all airlines engage in this practice, leaving themselves vulnerable to unforeseen spikes or extreme drops in the price of oil.

By some estimates, every time the price of oil rises \$1 per barrel, it costs the global airline business \$1 billion. But the inverse is also true. When the price of oil drops by \$1, the global airline business saves \$1 billion.

All of that is to say, when oil prices fall, shares of airlines could be expected to rise.

## Fuel and Global Airlines' Operating Costs



Source: IATA Economics, EIA

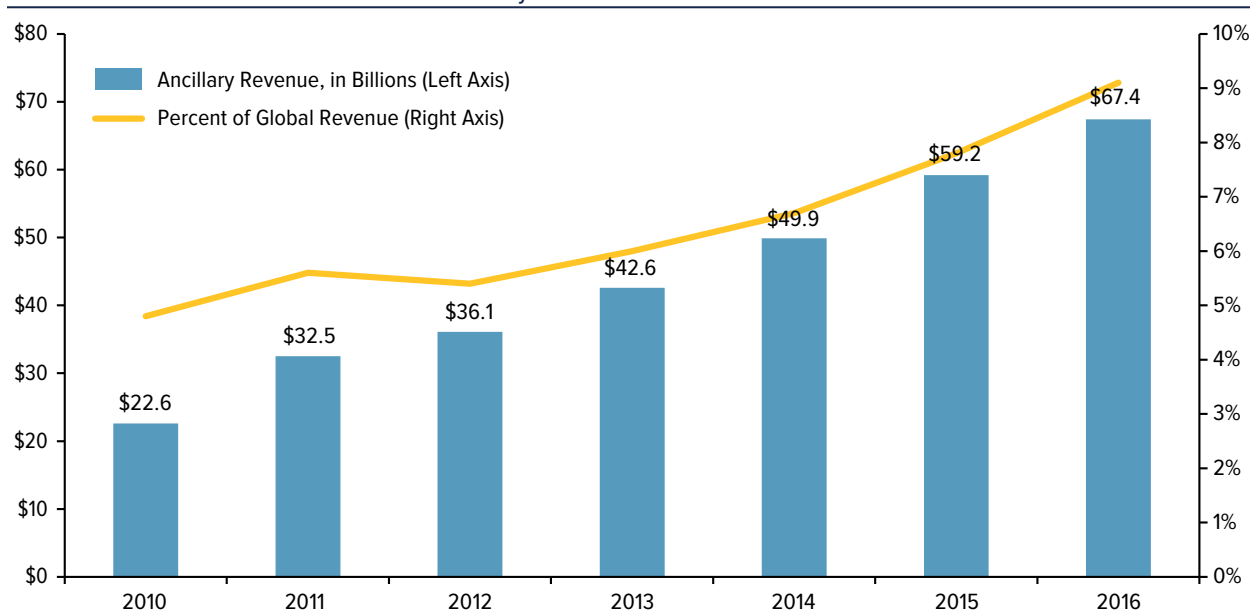
With oil prices touching five-year lows, operating margins are expected to improve significantly over the next two years. Rising fuel costs have suppressed profitability over the last decade. According to International Air Transport Association (IATA) estimates, low crude prices should lead to a reduction of nearly 25 percent in fuel costs. Unlike 2009, when oil prices declined as a response to the global recession, the recent slide in oil prices is more of a result of a change in oil supply dynamics.

## New Revenue Streams

Indeed, oil prices have declined roughly 50 percent since June 2014, which helps bring down the percentage of costs associated with jet fuel to the low 20 percent range and helps bring down the percentage of costs associated with jet fuel to less than 20 percent. This is a sustainable marginal expense.

The real game changer, however, has been new revenue streams, specifically ancillary, or non-ticket, fees. Airlines began charging for services customers were accustomed to getting for free — baggage handling, preferred seats, meals, drinks and more. Other examples of ancillary revenue include commission-based products — hotel accommodations and car rentals, for example — frequent-flyer programs and inflight advertising. In 2016 alone, airlines took in more than \$67 billion in ancillary revenue, according to IdeaWorks, an airline consulting group.

Airlines' Annual Financial Disclosures of Ancillary Revenue



Source: IdeaWorks, CarTrawler

Due to gains in ancillary revenue, operating profits ex-fuel per available seat mile (ASM) for a majority of airlines have improved dramatically over the last five years. The real story with ancillary revenue is that this is just the beginning.

## Investing in Technology

The robust financial health of most domestic carriers has prompted them to invest substantially in improving the flying experience for travelers, in an effort to remain attractive in the competitive airline space.



Passengers are benefiting from a 60 percent decrease in lost luggage, according to the SITA 2015 Baggage Report.

American Airlines, for example, announced in 2014 that it would invest in excess of \$2 billion to upgrade its flying facilities. Delta also recently received accolades for the redesign of its John F. Kennedy International Airport terminal that dramatically updates an old facility with modern touches like interconnected networked iPads on most tabletops and phone charging stations.

Technology is clearly changing the way we fly. Soon there will be wireless connectivity during the whole flight, which will not only make passengers more productive but the airlines as well. They will be able to manage flight plans better, weather delays and rerouting and have real-time inventory for better restocking procedures.

Most travelers in the U.S. today are technologically advanced, with many owning at least a smartphone, iPad or laptop computer. And as the middle class grows in emerging markets, more of their income will be spent on travel and mobile technology, so it makes sense to have mobile-ready terminals and airplanes.

Imagine the limitless number of new business opportunities that could generate even more revenue for airlines, from in-seat Google ads, which might know your travel itinerary and hotel booking information; to LinkedIn, which might allow networking on business flights; to Uber, prepared for your transportation needs once you land; to a white-label version of Airbnb; to inflight AirDates encounters; to a version of Tinder that allows you to swipe left or right for your favorite seating arrangement. The possibilities of a Wi-Fi enabled plane are endless.



## Manufacturers and Airport Services Companies

The companies that produce the planes and manage the airport terminals and service the airplanes also benefit when the airline industry is growing. Today, there are two major players in the commercial airline manufacturing business: Boeing (a U.S.-based company) and Airbus (operating in France). Both hold a respectable share of the overall market, Boeing with 43 percent and Airbus with roughly 41 percent.

Time will tell whether Boeing and Airbus can continue to dominate the manufacturing space. There are three new rising players in the space: Embraer (of Brazil), Bombardier (of Canada) and Comac (of China).

It's possible that increased competition in the manufacturing space could lead to lower construction costs, which may help airline carriers become even more profitable. Some of the savings could even be passed onto consumers, which may then promote further general consumption, increased air travel and continued economic growth.

## U.S. Regulations and Their Effect on the Domestic Airline Industry

As noted earlier, the commercial airline industry has been around for 100 years. During that time, it has gone through numerous radical legal and financial transformations. As we know, the airline industry is highly regulated.

Let's look back at some of the policies that regulate airlines.

In 1938, the Civil Aeronautics Board (CAB) was established to protect carriers against price competition and ensure a reasonable rate of return. To accomplish this, CAB was given the authority to regulate all areas of the airline industry, including routes, fares, entries and exits. So heavy-handed was its authority that, of the nearly 80 applications it received, only four new airlines were given clearance for international flights. Following CAB's inception, 23 interstate and international "trunk" carriers had been approved. By 1978, only 11 survived as a result of extensive mergers and acquisitions (M&As).



The government stopped regulating airfares in 1978.

The Airline Deregulation Act, passed in 1978, was a watershed event that sought to transform the airline industry. A key aspect of deregulation was the discontinuation of the government's regulation of the prices that airlines charge customers. The advent of the internet in the 1990s, proliferation of discount online airfares, easy access to carrier rate changes and the ability to compare rates side-by-side have been great equalizers and educators to the general public on the fares airlines charge.

The goal of the Airline Deregulation Act was to increase price competition and break the industry's oligopolistic structure. Congress could not have predicted in 1978 what the oil price shock and then the internet would do with regard to informing the public on the available price of airfare to a particular destination.

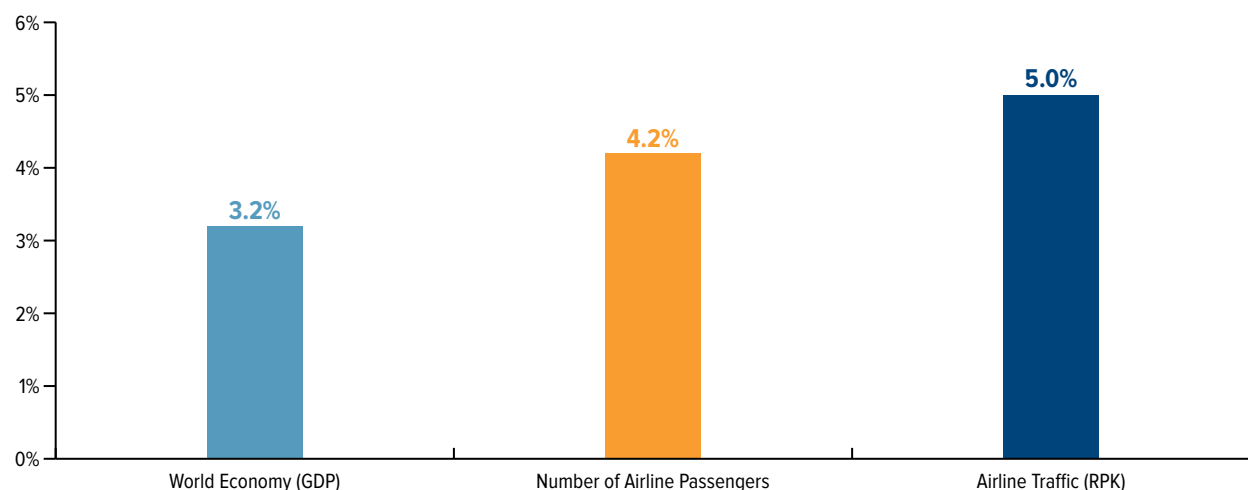
Following deregulation, approximately 130 new airlines entered the industry over the next 25 years. But apart from increasing competition, there was little benefit to consumers, mainly because fuel prices nearly doubled due to an oil price shock between 1978 and 1980. A highly unionized workforce and strong inflation rate of 10 percent also contributed to a sharp rise in industry costs.

### The Effect of Deregulation on the Airline Business

Ideally, deregulation should lead to favorable competition and market expansion. Competition usually reduces participants' unsustainable profit margins and creates a scenario in which inefficient businesses are forced to shut down, allowing the survivors to generate sustainable, long-term cash flows.

Over the last 40 years, global markets have expanded exponentially, with revenue per kilometer (RPK) growing 10 times, while GDP has expanded only three to four times. Looking ahead, Boeing estimates that RPK will grow at around 5 percent annually between 2013 and 2033, whereas the world economy will grow at just over 3 percent.

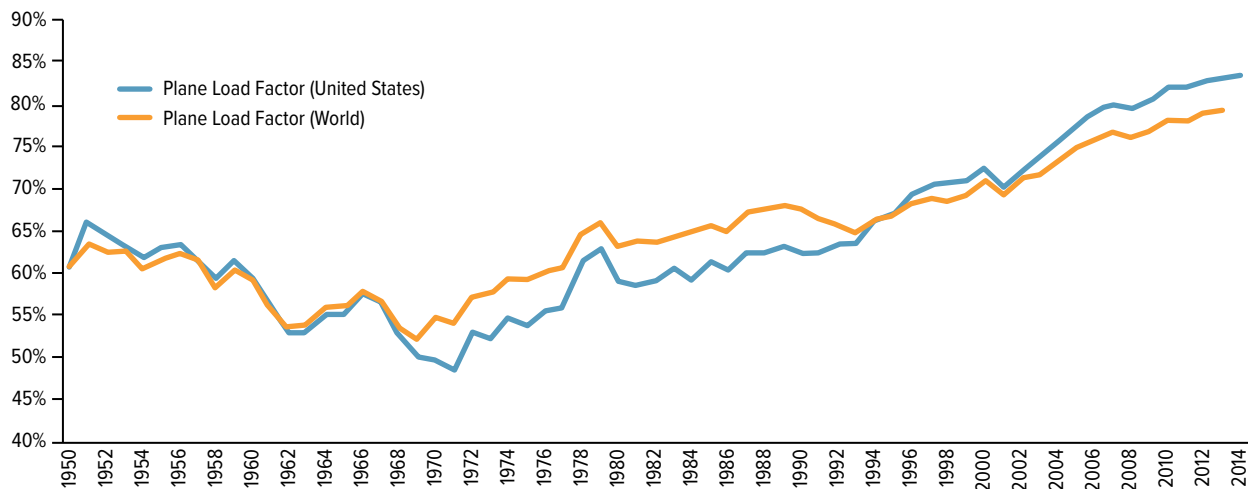
Estimated Revenue Per Kilometer Growth Compared to World GDP Growth, 2013–2033



Source: Boeing

Due to a competitive marketplace low airfare has contributed to market expansion. In inflation-adjusted dollars, airfare today is almost three times cheaper than it was in the late 1970s. Despite a rise in the number of seats following deregulation, the industry load factor — or measure of available seats filled with passengers — increased dramatically, from 55 percent in 1970 to 75 percent in 2010 to 85 percent in 2014.

## Airline Capacity Efficiency Has Improved Dramatically in the Last 65 Years



Source: Hofstra University

## Bankruptcy Forced New Financial Discipline

Airlines largely remained an unprofitable business from 1978 to 2010, mostly due to a unionized workforce and oligopolistic suppliers such as jet fuel producers, aircraft manufacturers and airport operators. Up until the beginning of the last decade, wages and pension benefits were airlines' single greatest expense.

Except for Southwest Airlines, which focuses on a low-cost business model, every single major U.S. carrier underwent Chapter 11 bankruptcy proceedings sometime in the 1990s and 2000s.

Bankruptcy was a turning point in the industry. It helped considerably with labor costs, the elimination of pension benefits and the introduction of 401(k)s.



Southwest Airlines focuses on a low-cost business model.

## Largest Bankruptcies in Airlines Industry

Company	Filing Date	Assets (US\$ Billions)
American Airlines	November 2011	24.70
UAL Corp.'s United Air Lines	December 2002	22.80
Delta Air Lines	September 2005	21.56
Northwest Airlines	September 2005	14.35
US Airways, Inc.	September 2004	8.60
US Airways, Inc.	August 2002	8.03
Continental Airlines Holdings	December 1990	7.66
Pan Am	January 1991	2.44
Hawaiian Airlines	March 2003	0.10

Source: Bankruptcydata.com

## The Airline Industry Is a Global Business

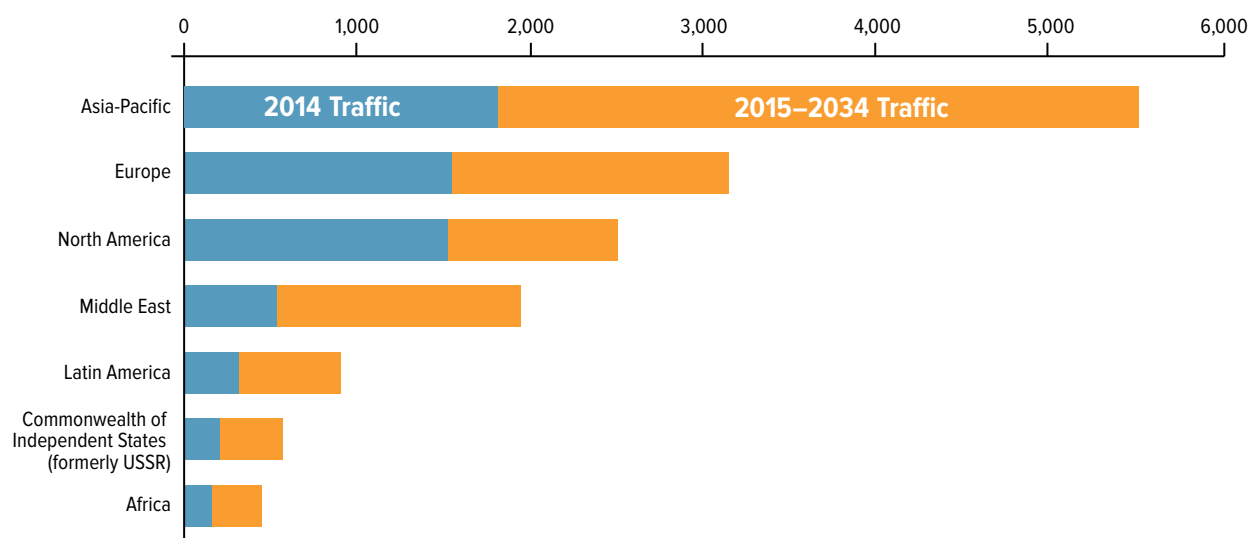
After approximately 35 years of deregulation, the industry is again emerging as an oligopoly in the U.S. With the merging of US Airways and American Airlines in 2013, the top four carriers now account for about 87 percent of market share. It's notable that, as of fiscal year 2014, the number of operational airlines sits at 26, which is not much higher than the number of airlines that existed soon before deregulation in 1978.

But that does not tell the whole story. As Congress worried about the U.S. business and punished the companies for growing U.S. market share, the rest of the world caught up to the top U.S. airlines. Now three of the top 10 global airlines are based in China and have been around for less than 30 years each.

By 2034, the Asia-Pacific region will lead global air traffic, according to Airbus.

## Asia-Pacific to Lead in World Traffic by 2034

RPK Traffic by Airline Domicile, in Billions



Source: Airbus

## Increasing Efficiency

### Capacity Discipline

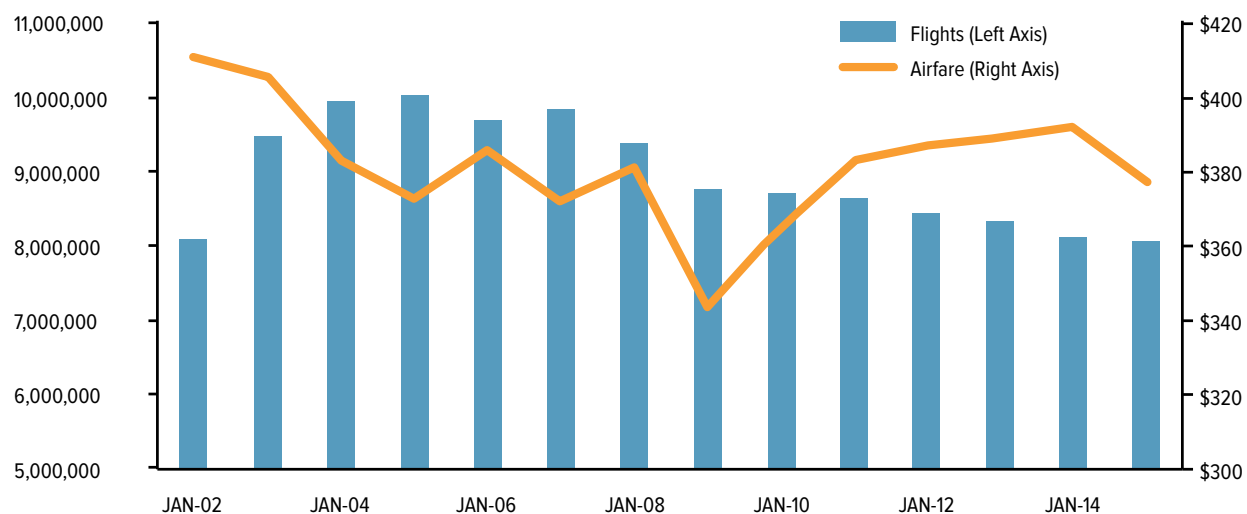
With more than a decade's worth of restructuring and consolidation, the airline industry became lean and efficient. Demand outpaced supply in the years between 2009 and 2014. Available seat kilometers (ASK) in domestic routes stood at 704 billion in 2014, compared to 741 billion in 2007, reflecting a decline of more than 5 percent capacity. Buoyed by the U.S. recovery, however, RPK crossed pre-recession levels in 2014, also reflected in a sharp rise in the load factor, from 72 percent in 2003 to 85 percent in 2014.

Industry leaders also began maintaining greater discipline in capacity growth domestically and internationally. Between 2001 and 2014, a collective 10 percent was cut from international aircraft capacity. American Airlines alone cut domestic capacity 30 percent.

Again, Southwest is the exception. It grew capacity nearly 100 percent during the same period. We also saw strong capacity growth by low-cost carriers (LCCs) over the last decade. However, legacy carriers still account for 77 percent of all air travel, based on revenue.

### Labor and Operational Efficiency

#### Average Airfare and Number of Flights



Source: Bureau of Transportation Statistics

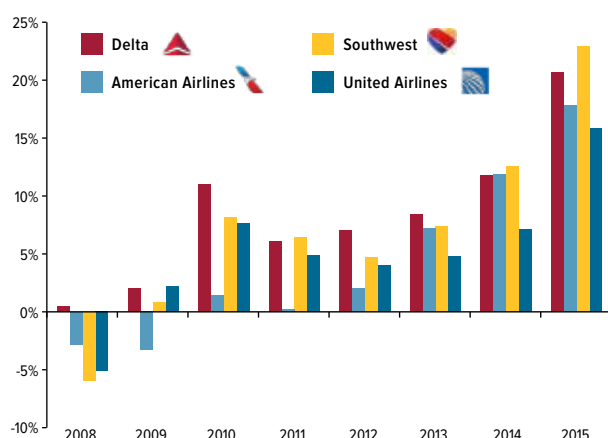
Employment in the industry has come down significantly from around 560,000 in 2001 to 490,000 in 2014. Full-time employees are still 3 percent lower than prerecession levels. Since 2008, however, average airfare has been trending upward. In the last five years, average real fares for U.S. air travel have risen nearly 15 percent, touching 10-year highs in the domestic market. Consolidation and improved efficiency have significantly lowered the number of scheduled flights offered. Slashing unprofitable and redundant routes has always been a key component to restructuring the industry, as it leads to huge cost-savings in terms of lower headcount, lower fuel costs and capacity efficiency. Since 2007, the number of scheduled flights overall has fallen every year, with 2014 being the lowest in 12 years.



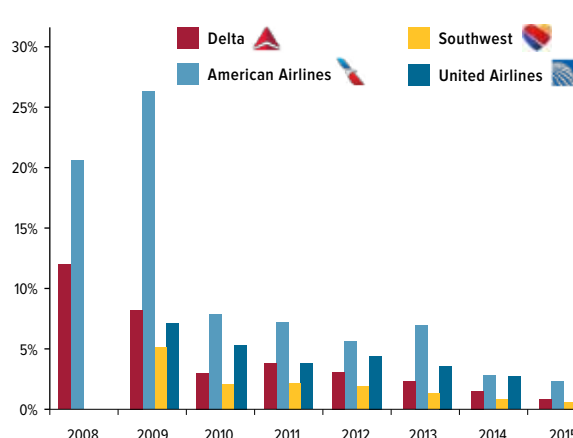


### Operating Margin Efficiency

Operating Margins for Top 4 Airlines



Debt to EBITDAR for Top 4 Airlines

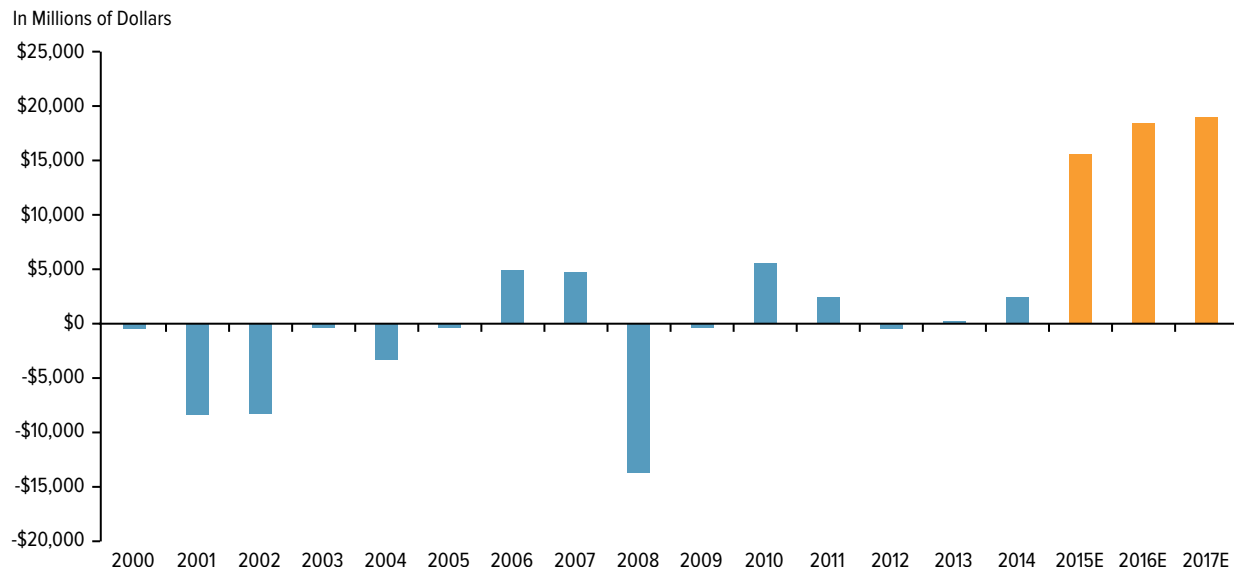


Source: FactSet

The top four players in the industry have improved their operating margins over the last four years, with legacy airlines such as American and Delta generating double-digit operating margins comparable to LCC peers such as Southwest. These margins are near the highs achieved by airlines between 1995 and 2000.

Increasing profitability has improved financial fundamentals, indicated by the sharp decline of debt-to-earnings before interest, taxes, depreciation, amortization and restructuring (EBITDAR) ratio for top players in the industry.

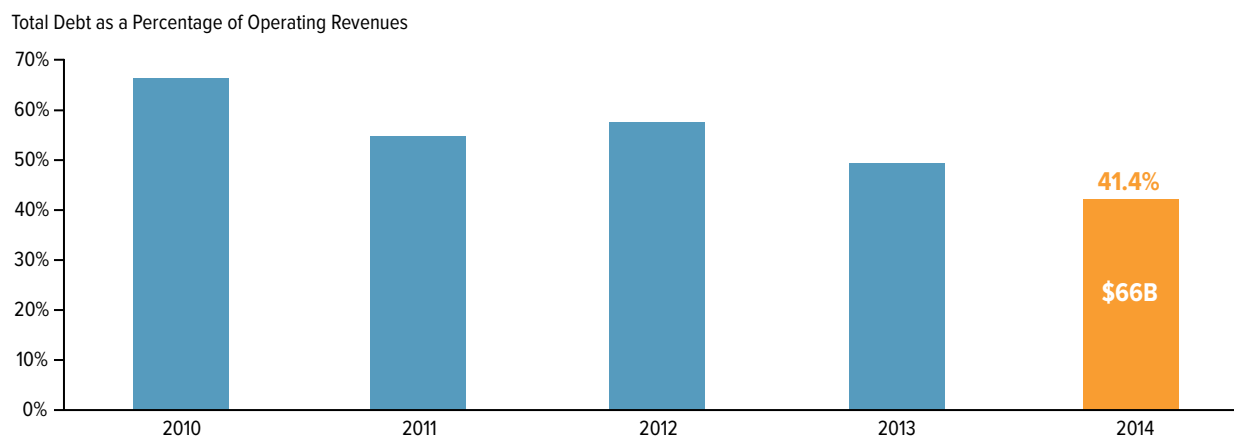
## Domestic Airlines Are Forecast to See Greatest Free Cash Flow in Years



Past performance does not guarantee future results. **Source:** BoA Merrill Lynch Global Research, U.S. Global Investors

Domestic airlines are committed to fixing their balance sheets, retaining and attracting new investors and improving conditions for both workers and passengers. In 2016, airlines reinvested an average of \$1.4 billion per month to update or replace aircraft and to enrich the customer experience. Cash flow generated since the industry consolidated in 2009-2010 has allowed carriers to retire a combined \$60 billion in debt, which today accounts for just 32 percent of operating revenue, down from 45 percent in 2010.

## U.S. Airlines Tackling the Mountain of Debt



**Source:** Airlines for America, U.S. Global Investors

## Shareholder Friendly Policies

Aside from improving cash positions and debt levels, airlines have also increased cash payouts to shareholders over the last two years. American, Southwest and Delta all announced stock buybacks in 2014, each buying shares worth \$1 billion from their investors. According to Airlines for America, carriers returned \$11.4 billion to shareholders in the first nine months of 2016—\$10.5 billion in stock buybacks and \$912 million in dividends. United is the only large carrier that has not initiated a regular dividend policy.



It has instead used its cash flows on capital expenditures and to pay down debt. It has also successfully negotiated its contracts and pension liabilities with its workforce, effectively reducing pension liabilities.

In August 2015, United joined Delta and American in the S&P 500 Index.

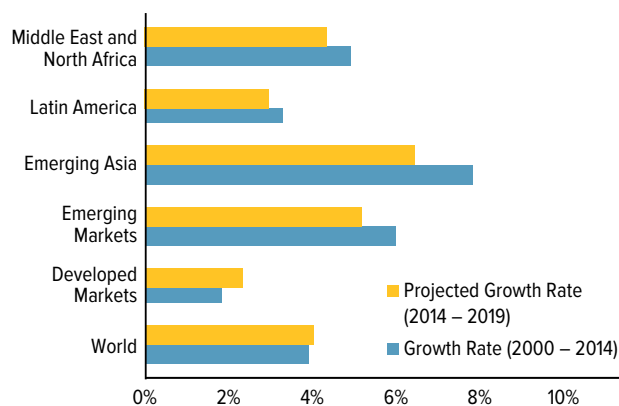
### Secular Growth Cycle and Emerging Market Growth

Over the last 15 years, global growth has shifted decisively to emerging markets, predominantly in Asia with its emerging middle class.

The IATA estimates that by 2034, passenger numbers will reach 7.3 billion — approximately the number of people currently alive — with China overtaking the U.S. as the largest passenger market. If this forecast turns out to be accurate, that would translate to an average annual growth rate of 4.1 percent. With emerging markets driving much of that growth, domestic carriers are starting to market themselves globally as well as domestically.

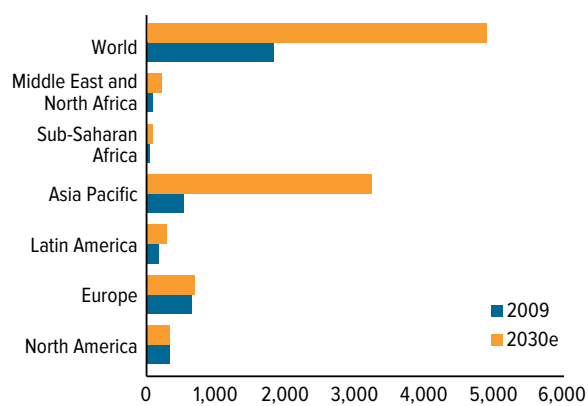
Population growth in countries such as India, China and Indonesia is expected to dramatically outpace the rest of the world. China and India are expected to become the largest and third-largest economies, with emerging markets collectively expected to contribute more than half of all global output by 2030.

GDP Growth by Geographic/Economic Grouping



Source: International Monetary Fund

Size of Global Middle Class



Source: Brookings Institution

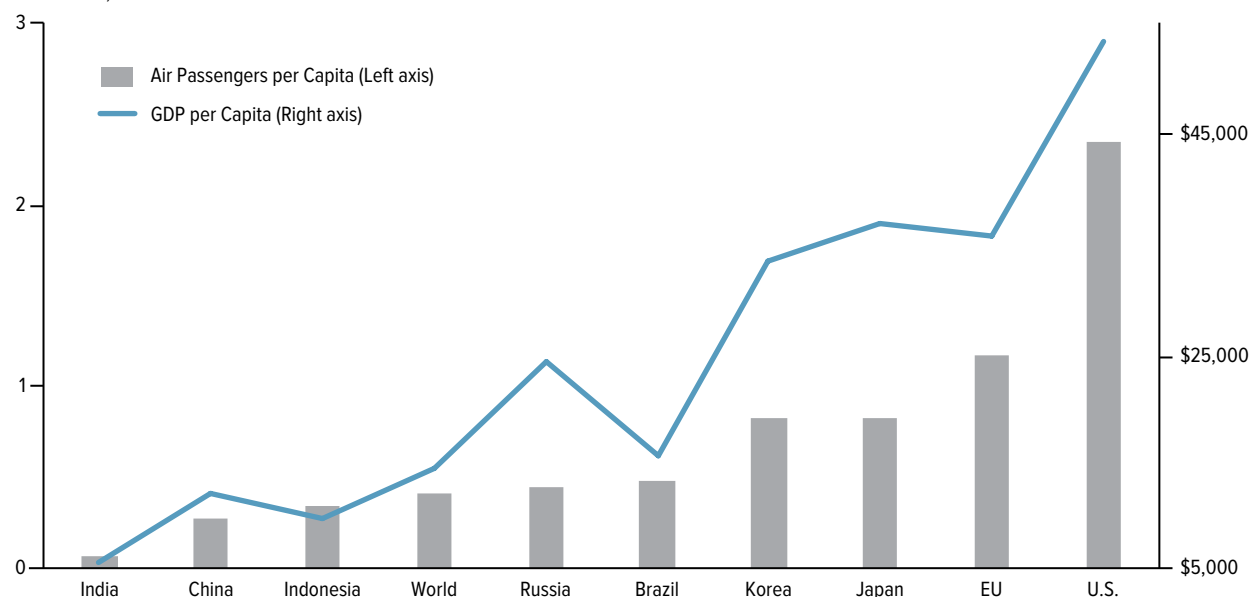
The percentage of people living in the Asia-Pacific region who will join the middle class is expected to increase from 28 percent of the world's population in 2009 to a mammoth 66 percent by 2030. The global middle class is expected to increase by nearly 3 billion in 2030, more than 90 percent of which will be contributed by the Asia-Pacific region. Together, India and China will contribute more than 2 billion people to the growing middle class.

The global cumulative average growth rate for air traffic stood at 4.31 percent between 2005 and 2012, according to Boeing. Meanwhile, regions dominated by large emerging markets registered a compound annual growth rate (CAGR) of 9.8 percent (in the case of Southeast Asia), 11.4 percent (South America) 12.6 percent (Eastern Europe), 13.2 percent (South Asia) and 13.7 percent (China). These figures were in stark contrast to anemic growth rates of between 0 percent and 4 percent for developed markets.

Emerging markets accounted for about 80 percent of air traffic growth between 2005 and 2012. Over the next 20 years, RPMs are expected to increase at a CAGR of 4.7 percent to reach a level of more than 7 trillion by 2032, compared to 3 trillion in 2013. Economists estimate that China alone will contribute 25 percent of the increase in global traffic.

#### Air Passengers per Capita and GDP per Capita for Key Markets

Annual Data, as of 2013



Source: World Bank

Air traffic demand, which is linked to disposable income, is currently much lower in emerging markets than in developed markets. India, for example, has 0.06 trips per capita and China, 0.25. In Japan, it's 0.85; the European Union (EU), 1.15; in the U.S., 2.35.

The future growth for U.S. carriers will be in their international routes and with customers from emerging markets. Key to that growth will be the airlines' alliance programs with foreign domestic carriers. All of the top 10 U.S. air carriers are members of one of the airline alliances.

Some U.S. carriers have even used their free cash flow to take ownership positions in emerging market airlines. For example, Delta bought a 3.55 percent stake in China Eastern Airlines, and United Continental bought a stake in Brazilian airline Azul.



## Geographic Diversification: Improving the Risk/Return Profile

As discussed earlier, airlines have historically operated at small profit margins. They were sensitive to short-term economic and business disturbances, which put them under pressure financially.

### Return Analysis

Period	NYSE Arca Airlines Index	NYSE Arca Global Airlines Index	MSCI EM Airlines Index
Feb 2001 – Dec 2004	-60.44%	-29.81%	54.08%
Dec 2004 – Sep 2007	-27.00%	37.32%	83.74%
Sep 2007 – Dec 2012	0.89%	-23.51%	-47.03%
Dec 2012 – Dec 2014	135.42%	158.25%	-19.02%
<b>Total Feb 2001 – Dec 2014</b>	<b>-31.40%</b>	<b>90.40%</b>	<b>21.45%</b>

Source: Bloomberg

Again, global economic trends and geopolitical activities have a significant impact on the airline industry. The magnitude of this impact can be highly localized for individual airlines. In the years following 9/11, for example, revenues declined for U.S. carriers but thrived for global carriers. This is reflected by the poor performance of the NYSE Arca Airlines Index until 2007.

The NYSE Arca Global Airlines Index, on the other hand, significantly outperformed its U.S.-focused peer because of its less concentrated exposure to American carriers. Later, the period marked by global recession and mild recovery — September 2007 through December 2012 — saw the U.S. airlines benchmark delivering static returns of 0.89 percent while global and emerging market indices fell 23 percent and 47 percent. This can be explained by the ongoing eurozone crisis and sharp downward revision in the growth rates of emerging



markets following the 2008 U.S. recession. Over the last few years, with developed markets taking the lead in global recovery, both the U.S. and global indices have recorded returns of more than 100 percent.

The performance of the global airline industry diverges widely on the basis of geography and economic standing. The NYSE Arca Global Airlines Index returned about 90 percent from February 2001 to December 2014 (compared to -31 percent for the NYSE Arca Airlines Index) at a relatively lower volatility of 33 percent (compared to 40 percent for the NYSE Arca Airlines Index). Geographic diversity might dampen volatility and improve the risk/return profile. The U.S. airline industry is clearly leading the way in the latest recovery and the fundamental changes in how airlines are run.

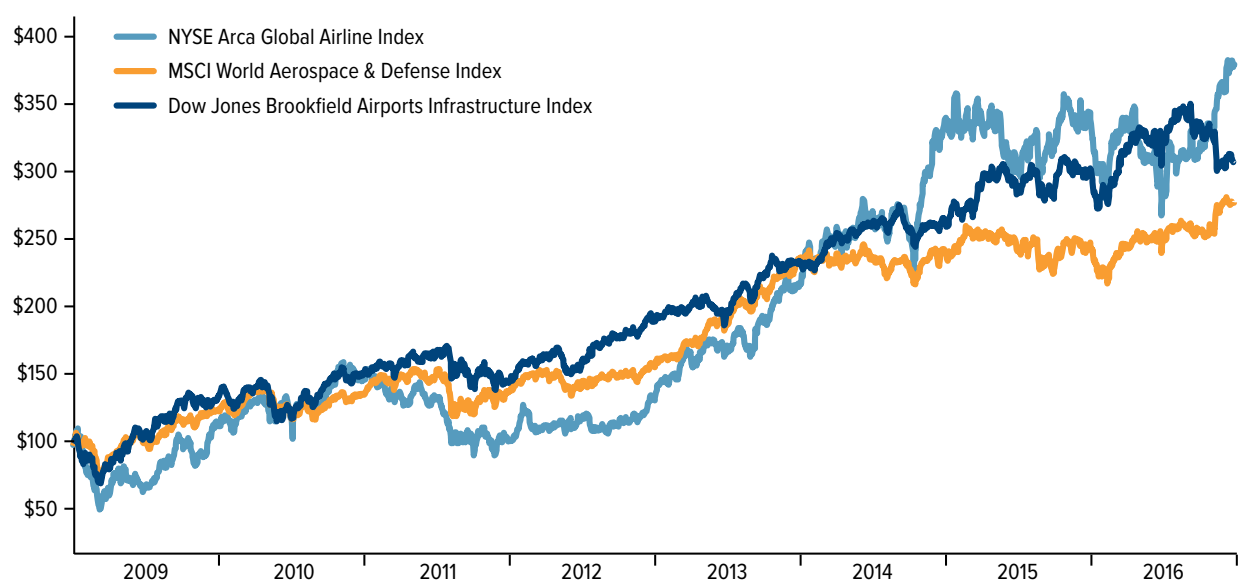
## Investing Across the Value Chain

Among the other players in the airline industry are airports and aircraft manufacturers. Very much like airlines, aircraft manufacturing is a highly oligopolistic industry with high entry barriers. As we've already discussed, Boeing and Airbus have a combined market share of more than 80 percent. Although margins have remained in the single digits throughout the period featured below, manufacturers have stayed mostly profitable.

Airport operating companies are similar to utilities, in that they enjoy a stable business model with monopolistic controls on arrival and departure terminals in various cities. Airports charge airlines service fees, which are mostly dependent on air traffic. Based on trends in air traffic growth, we believe these fees are likely to expand consistently over the next 25 years.

Similarly, the margin profile for airports has remained stable, with all of the top players in the black across 10 years.

### Hypothetical Growth of a \$100 Investment, December 31, 2008 – December 27, 2016



Past performance does not guarantee future results. It is not possible to invest in an index. **Source:** Bloomberg, U.S. Global Investors

An investment of \$100 in the aerospace and defense industry on October 14, 2005 would have grown to \$276 by December 27, 2016, compared to \$378 in the global airline industry and \$326 in the airport industry.

Earlier, it was mentioned that the U.S. Global Jets ETF differs from two previous attempts at an airline-focused ETF, in that JETS also includes exposure to global airports and aircraft manufacturers. In the chart above, you can see how diversification in these two other subindustries might help an airline investor capture additional growth.

### JETS: A Dynamic, Rules-Based ETF

Largely as a result of unprecedented, worldwide middle class growth and historically low fuel costs, commercial airlines are expected to post a cumulative profit of \$35.6 billion in 2016, up slightly from \$35.3 billion in 2015.

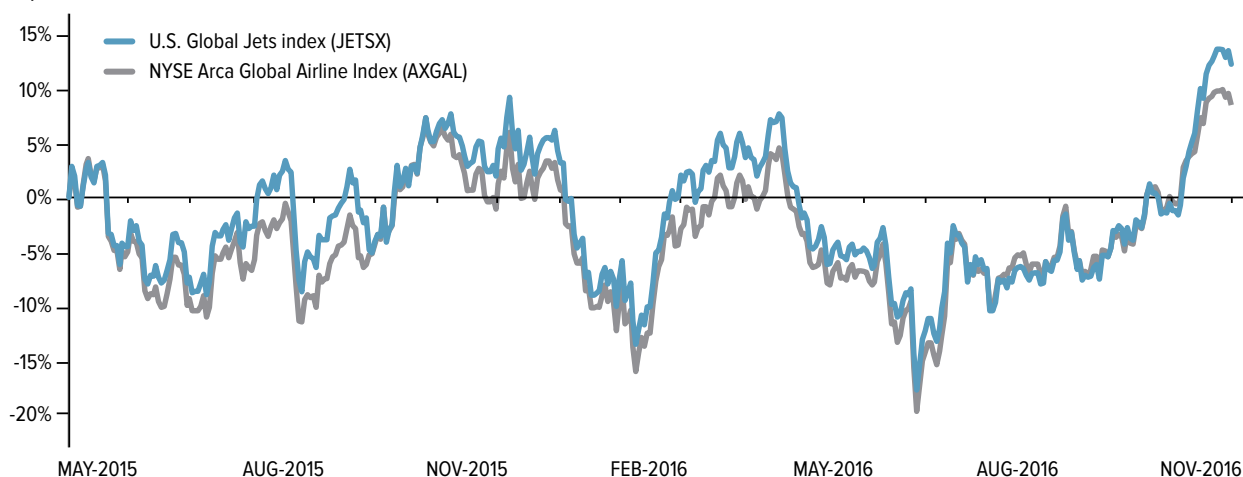
But aircraft manufacturers and airport service providers benefit from this expansion just as airlines do, especially in regions such as Southeast Asia, South America and China.

This is precisely the reason why the U.S. Global Jets Index (JETSX) was created — to capture the performance of global companies in not just the commercial airline industry but also the important aircraft manufacturing and airport and terminal services subindustries. Before JETSX, no other index tracked all three airline spaces collectively on a global scale.

Below, you can see the results thus far. JETSX has outperformed its chief rival index, the NYSE Arca Global Airline Index, since its inception in April 2015.

#### Since Inception, the U.S. Global Jets Index (JETSX) Has Beaten the NYSE Arca Global Airline Index (AXGAL)

April 30, 2015 - December 27, 2016



Past performance does not guarantee future results. It is not possible to invest in an index. **Source:** Bloomberg, U.S. Global Investors

Just as there's only one JETSX, there's only one ETF that tracks it — the U.S. Global Jets ETF (JETS), a dynamic, rules-based fund. Using a proprietary factor model, JETS seeks to outperform what might be offered by a simple market cap-weighted product.

With a global middle class on the rise and fuel prices low, now might be an opportune time to consider JETS. Request further information today by calling **(844) ETF-JETS** or by visiting **www.jetsetf.com**.

*Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a statutory and summary prospectus by visiting [www.usglobaletfs.com](http://www.usglobaletfs.com) or by calling 844.ETF.JETS (844.383.5387). Read it carefully before investing.*

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the fund. Brokerage commissions will reduce returns. Because the fund concentrates its investments in specific industries, the fund may be subject to greater risks and fluctuations than a portfolio representing a broader range of industries. Airline companies may be adversely affected by a downturn in economic conditions that can result in decreased demand for air travel and may also be significantly affected by changes in fuel prices, labor relations and insurance costs. The fund is non-diversified, meaning it may concentrate more of its assets in a smaller number of issuers than a diversified fund. The fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. The fund may invest in the securities of smaller-capitalization companies, which may be more volatile than funds that invest in larger, more established companies. The performance of the fund may diverge from that of the index. Because the fund may employ a representative sampling strategy and may also invest in securities that are not included in the index, the fund may experience tracking error to a greater extent than a fund that seeks to replicate an index. The fund is not actively managed and may be affected by a general decline in market segments related to the index. Diversification does not assure a profit, nor does it protect against a loss in a declining market.

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The U.S. Global Jets Index seeks to provide access to the global airline industry. The index uses various fundamental screens to determine the most efficient airline companies in the world, and also provides diversification through exposure to global aircraft manufacturers and airport companies. The index consists of common stocks listed on well-developed exchanges across the globe. It is not possible to invest directly in an index.

All opinions expressed and data provided are subject to change without notice. Opinions are not guaranteed and should not be considered investment advice.

Fund holdings and allocations are subject to change at any time and are not recommendations to buy or sell any security.

#### Top 10 Holdings as of November 30, 2016

Company	Weight	Country of Domicile
United Continental Holdings, Inc.	13.39%	United States
Delta Air Lines, Inc.	12.87%	United States
American Airlines Group, Inc.	12.69%	United States
Southwest Airlines Company	12.61%	United States
Spirit Airlines, Inc.	4.64%	United States
JetBlue Airways Corporation	4.13%	United States
Alaska Air Group, Inc.	3.99%	United States
Hawaiian Holdings, Inc.	3.55%	United States
Virgin America, Inc.	3.37%	United States
SkyWest, Inc.	3.20%	United States

There is no guarantee that the issuers of any securities will declare dividends in the future or that, if declared, will remain at current levels or increase over time. A stock buyback, also known as a "share repurchase," is a company's buying back its shares from the marketplace. You can think of a buyback as a company investing in itself, or using its cash to buy its own shares.

The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies. The NYSE Arca Airline Index (XAL) is an equal dollar weighted index designed to measure the performance of highly capitalized companies in the airline industry. The XAL Index tracks the price performance of major U.S. and overseas airlines. The NYSE Arca Global Airline Index (AXGAL) is a modified equal-dollar weighted index designed to track the performance of listed securities in the global passenger airline sector. The MSCI World Aerospace and Defense Index is composed of large and mid-cap stocks across 23 developed markets countries. All securities in the index are classified in the Aerospace and Defense industry group (within the Industrials sector) according to the Global Industry Classification Standard. The MSCI EM Airlines Index is a free float weighted equity index. This is a GICS Industries (Level 3) Index. The Dow Jones Brookfield Airports Infrastructure Index is a global index of companies that derive >70% of cash flows from infrastructure lines of business and >50% of cash flows from the indicated sector. Components must pass screens for minimum float market cap and trading volume. The index is float market cap weighted and calculated in USD. The MSCI World Aerospace and Defense Index is composed of large- and mid-cap stocks across 23 Developed Markets countries. All securities in the index are classified in the Aerospace and Defense industry group (within the Industrials sector) according to the Global Industry Classification Standard (GICS®).

Cash flow is a measure of the amount of cash generated by a company's normal business operations. Free cash flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. Cash flow to capital expenditures is the ratio of a company's cash from operations to its capital expenditures for acquiring or upgrading assets, such as buildings or equipment, required to improve or maintain business operations. Smart beta refers to investment strategies that emphasize the use of alternative weighting schemes to traditional market capitalization based indices. Operating margin is a margin ratio used to measure a company's pricing strategy and operating efficiency. Operating revenue is income derived from sources related to a company's everyday business operations. For example, in the case of a retail business, inventory sales generate operating revenue, whereas the sale of a warehouse does not. Instead, the latter sale is considered to be an unexpected or "one-time" event. Rate of return is a profit on an investment over a period of time, expressed as a proportion of the original investment. The time period is typically a year, in which case the rate of return is referred to as annual return. Earnings before interest, taxes, depreciation, amortization, restructuring or rent costs (EBITDAR) is calculated as revenue minus expenses. The compound annual growth rate (CAGR) is a useful measure of growth over multiple time periods. It can be thought of as the growth rate that gets you from the initial investment value to the ending investment value if you assume that the investment has been compounding over the time period. Profit margins are the amount by which revenue from sales exceeds costs in a business.

