

ODLUM BROWN REPORT

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ODLUM BROWN
Investing for Generations®

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The Sky Isn't the Limit

In 1903, the Wright brothers successfully completed the first engine-powered flight. They managed to get up into the air four times, each session lasting longer than the previous. Unfortunately, as they were discussing the last flight, a gust of wind flipped their fragile wooden plane over, and it was damaged beyond repair. From these humble beginnings, the spirit of aviation took flight, embarking on an era of rapid experimentation and daring feats, and setting the foundation for air travel as we know it. The Wright brothers pushed the boundaries of distance and endurance, turning the skies into pathways for exploration, adventure and connection. Thanks to them, we can experience new people, cultures and countries with relative ease.

But despite its societal value, aviation was one of the hardest-hit industries during the COVID-19 pandemic. Due to concerns about the spread of the virus, many countries enacted strict restrictions on foreign visitors, and leisure travel was effectively banned. Demand for travel evaporated overnight, leaving more planes parked on the ground than flying in the sky. Wall Street analysts were predicting it would take as long as seven years for the sector to fully recover! The outlook was very pessimistic.

In late 2020, with the development of a vaccine underway and the loosening of restrictions on the horizon, we began investing in aviation stocks. We saw past the scary headlines and the doom and gloom. Our confidence stemmed from a belief that air travel would resume and eventually resemble pre-pandemic levels. The desire to travel didn't disappear during the pandemic, it was just deferred.

Moreover, history shows that air travel tends to grow at a faster pace than the global economy. This trend is measured by comparing the growth rate of air passenger traffic (measured in revenue passenger kilometers) with the growth rate of the global Gross Domestic Product (GDP). Air passenger traffic has generally grown at an average annual rate of 5%, which is nearly double that of the global economy, typically 2% to 3%.

This trend was massively derailed in April 2020, and air travel fell more than 90% when compared to the prior year. However, by the end of 2023, it had recovered to 94% of pre-pandemic levels. Investors expect 2024 air traffic to eclipse 2019 levels, but there is still a long way to go before it recovers to where it would have been without the pandemic disruption. Looking back to significant events like 9/11, the SARS pandemic or the Global Financial Crisis, air traffic has always returned to its 5% annual growth trend, and we are confident it will do so again.

Why is it that air travel tends to grow at such a rate? The answer is hardwired. Humans are social beings; we have an inherent inclination to seek relationships and connections and to explore and learn. Air travel satisfies those needs. It reduces geographical distances, enabling people to be with family and friends and to discover new things. A key principle of Warren Buffett's investment philosophy is to invest in the things that do not change, and this human condition is unlikely to. If anything, it has intensified after the pandemic.

A growing middle class and greater access to the infrastructure that supports aviation are driving demand from new sources. Forecasts indicate that 70 million people will join the middle class around the world each

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ODLUM BROWN'S ANNUAL ADDRESS

Annual Address presentations are now online!

Thank you to everyone who joined us at one of this year's Annual Address presentations. We enjoyed connecting with clients and friends across the province!

For those who were unable to attend or would like to revisit the presentation, a video recording and transcripts are now available at odlumbrown.com/address24.

year, all while airfare is becoming more affordable thanks to budget and low-cost airlines. There are presently 514 infrastructure projects in progress globally, adding new airports and related frameworks that will improve access and open new markets.

With the travel rebound from the pandemic still ongoing and the natural growth of the aviation industry not yet back to its long-term historical trend, we believe this area offers an opportunity for investors.

Our first recommendation in this space was CAE in late 2020. CAE provides pilot training and services for civil and military applications. The need for pilots and pilot training will grow alongside demand for air travel. According to CAE, U.S. Federal Aviation Administration statistics indicate over 45,000 commercial pilots will be required in the next 10 years. This represents about 27% of the current commercial airline pilot population in the U.S. In addition, industry growth is expected to increase global demand for pilots by more than 40% over the next 10 years.

TransDigm is another business likely to benefit. The company sells aftermarket parts for civil and military aircraft. In many instances, it is the sole source provider of replacement parts. Planes fly all over the world, and proper maintenance and repair are critical to healthy airline operations.

Finally, we like GE. General Electric, as it was previously known, was once the most valuable public company in the United States. For well over a century, it was known for invention and innovation, blazing a trail with its production of the incandescent lightbulb, electric locomotives, household appliances and radio communications, to name just a few. It was one of the largest and most diversified corporations in the world. However, almost two decades of mismanagement have taken a toll, and GE is presently undergoing a corporate reorganization to focus on aerospace.

In 2018, GE appointed Larry Culp, the former CEO of industrial stalwart Danaher, to the helm to turn operations around. Mr. Culp is well regarded by investors. Since his tenure, he has divested non-core businesses, repaid debt and worked to improve GE's culture and processes. He's made progress, and today GE is the market leader in jet engines with its machines installed on three times as many planes as its nearest competitor. This transformation is still very much underway, and we believe investors will ascribe GE a higher valuation when it is complete.

Looking back, it's hard to fathom how far aviation has come. The technology going into air travel today would probably exceed the limits of the Wright brothers' imaginations. Their initial flights never got more than a few feet off the ground. Today, the average commercial flight operates at an altitude higher than the peak of Mount Everest! Aviation stands as a testament to humanity's ambition and ingenuity in the pursuit of satisfying our innate instincts to connect with one another and explore. The industry's journey mirrors the human condition itself – always striving and dreaming of a world brought closer together.



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Planning Considerations for Gifts to Adult Children

Families are increasingly contemplating ways to transition family wealth to younger generations, often with the goal of easing the financial stress from higher living costs and interest rates.

When helping loved ones financially, it is important to make all decisions thoughtfully and with awareness of the potential legal implications that could arise from your decisions. A well-guided approach to cascading wealth while you are alive or after you are gone can help avoid family conflict.

This article discusses some planning considerations and techniques to help you get started and is intended as a primer for further personalized legal advice to understand your options and opportunities.

Considerations for Real Estate

With the growth of the Canadian housing market, some parents and grandparents are stepping in to assist their family members with rent, a down payment on their home or mortgage payments. In BC, 41% of first-time homebuyers receive financial support from family in making their purchase.¹ In these scenarios, all involved parties should carefully consider whether such financial assistance is intended as a “gift” or a “loan.”

For example, consider how the following events would be managed:

- The provider dies. Should the amount be deducted from the recipient’s share of the deceased’s estate?
- The provider encounters a financial setback such as a major health issue, job loss or business failure, family breakdown, death of their partner, or simply wants the funds back.
- The recipient and provider become estranged.
- The recipient’s marriage or common-law relationship ends, and family assets and liabilities would be divided.
- The recipient dies.
- The recipient faces claims by creditors.
- The property is sold.

Having a clear understanding of the terms of the financial assistance at the outset can help avoid ambiguity or conflict in these types of scenarios.

Family Law Considerations

Not all relationships endure for life, and a couple’s money, home equity, and other assets and debts can be divisible under provincial or territorial family law after a relationship ends. Therefore, understanding how family law applies to a gift or inheritance, including a mortgage lump-sum payment, is important when contemplating making gifts and creating inheritances.

For example, under BC’s *Family Law Act*:

- Non-married individuals who are classed as spouses, or colloquially referred to as common-law spouses,² are treated similarly to married spouses for property division.
- Certain property may be “excluded” from property division, such as gifts or an inheritance received by one of the parties to the relationship.
- While the initial value of excluded property may reduce the assets to be shared, growth and income derived from excluded property may still be divisible.
- If excluded property is not kept separate from non-excluded property, it is generally more difficult to have it “excluded.” For example, gifted funds used to buy a jointly owned home or repay a joint mortgage may be difficult to trace and treat as an excluded asset.
- Couples can make relationship agreements before or during their relationship, and such agreements are generally given considerable weight unless they rise to the level of being significantly unfair. Such agreements can therefore be more useful than before BC’s *Family Law Act* came into force in 2013.

Sample Discussion Points with Your Legal Advisors

- **Creating family law agreements:** Couples should consider creating relationship agreements (commonly called prenuptial, marriage or cohabitation agreements) before or during their relationship to clarify how assets, debts, gifts, inheritances and growth would be divided if their relationship breaks down. Both parties should obtain independent legal advice.
- **Updating family law agreements:** As the relationship and financial circumstances evolve, agreements should be reviewed with legal advisors. For example, before a gift or inheritance is received or comingled into other family assets.

- **Keeping gifts and inheritances separate:** Particularly if spouses or partners disagree with how inherited or gifted amounts should be handled, it may be prudent to discuss ways to keep inherited or gifted assets clearly separated, such as in separate bank and investment accounts (under sole name of the original recipient), investment in separate real estate or so on. Keeping detailed records and documentation of inherited or gifted assets, such as the will or beneficiary designation documents for an inheritance, gift letter, bank statements and/or any other relevant paperwork, can help establish the initial value of these assets at a later date. It is incumbent on the spouses themselves to maintain these records, and it is risky to rely on financial institutions to provide their records in the future; financial institutions do not generally retain records indefinitely.
- **Using mortgages or promissory notes:** Under advice from your legal professionals, weigh the pros and cons of making a gift or loan, and clearly document your intentions. Use appropriate legal instruments to ensure clarity: for example, providing a gift letter, placing a second mortgage on property title or creating a promissory note.
- **Using trusts:** Inheritances provided through your will can either be bequeathed as an outright gift to beneficiaries or held in trust. Using a trust can offer certain guardrails, such as how and when beneficiaries can access funds, as well as potential protection from creditors. For example, a trust deed could stipulate a staggered release of funds at different ages or provide the trustee(s) discretion over distribution amounts and timing.

Conclusion

By taking proactive steps, you can plan to provide a wonderful legacy to loved ones and ensure lasting benefits while minimizing potential risks and challenges. We emphasize the importance of consulting your family and estate lawyers to determine what approaches may be suitable for your specific situation and under your local laws.

Ask your Odium Brown Investment Advisor or Portfolio Manager for a copy of our article “The Perils of Joint Ownership” if you are also contemplating placing investment accounts or real estate in joint names with an adult child or grandchild.



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¹ <https://globalnews.ca/news/9787296/first-time-homebuyers-bc-borrow-money-from-family-report/>

² We encourage you to check with your legal advisor for more details about your jurisdiction’s definition of a common-law relationship, including whether common-law relationships give rise to property division rights in the same form as married spouses and property division in family law.

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Odlum Brown in the Community

To celebrate Odlum Brown's 100th anniversary, we invited clients and friends to help us make an even bigger difference by nominating organizations that they saw making a meaningful impact in their communities.

At our Annual Address last month, President and CEO Debra Doucette announced the four recipient organizations, each of which has received a special donation of \$5,000 from Odlum Brown in honour of our 100th anniversary. We are proud to showcase these wonderful organizations and their important work:

InspireHealth is a non-profit organization that offers empowering and crucial support for those affected by cancer. Their support covers a multitude of areas including stress and mental health counselling, managing treatment side-effects, nutrition support, exercise therapy for better recovery, improving sleep and energy, and managing work, life and relationships. **For more information, visit inspirehealth.ca.**

The Cheakamus Foundation for Environmental Learning is dedicated to the support of nature-based learning at Cheakamus Centre. Cheakamus Centre is an overnight field school that offers inspiring educational programs to encourage environmental curiosity, learning and stewardship. Their learning community understands the value of outdoor environmental learning in increasing engagement, improving social-emotional competencies including self-regulation and resiliency, and enhancing students' understanding of and appreciation for the natural world.

For more information, visit cheakamuscentre.ca.

Take a Hike empowers youth with intentional, continuous clinical counselling, outdoor experiential learning and community. They provide youth with the skills and resilience they need to graduate high school, build healthy relationships and achieve success – however they define it. **For more information, visit takeahikefoundation.org.**

Soap for Hope Canada is a non-profit organization with the mission of changing lives by providing hope and dignity through hygiene. They collect and repurpose hotel hygiene products, linens, and lost and found items which would otherwise end up in landfills, transforming the discarded products and distributing them at no charge to people in need. **For more information, visit soapforhopecanada.ca.**

Thank you to everyone who submitted nominations. We are incredibly grateful to have clients who share our commitment to supporting the communities where we live and work, and to be able to celebrate our 100th anniversary by making an even bigger difference!



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