

## Our Boeing Thoughts

Boeing shares are widely held among Ascent portfolios, most notably in our dividend-focused investment strategy. They have been under pressure for the last month, following the crash of an Ethiopian Air flight using Boeing's 737 Max 8 variant.

This crash is the second in seven months with this airframe. In October, an Indonesian Lion Air Max 8 crashed shortly after takeoff. At present, all 737 Max planes in service around the globe, approximately 400, have been grounded while the crash investigations continue.

The 737 is a highly successful airplane and one that, historically, has been very safe to operate. The "Max" version of the 737 dates to a 2011 design update, whereby the 737 was fitted with new engines that offer significant improvements in fuel consumption, noise and emissions over older 737 models. The engines are heavier than prior versions, and their adoption necessitated other design changes to the airframe, including where the engines are placed on the airplane's wings.

Investigators have identified the likely culprit to the crashes. In brief, the plane's new design has some different handling characteristics from the old, including a tendency to "nose up" during a climb, which could lead to a loss of lift for the craft. An automated flight control system meant to identify and counteract potential handling problems may have, ironically, hindered the pilots from maintaining aircraft control in a moment of trouble. To address flight safety, Boeing is refining the airplane's control software, strengthening sensor data that detects flight dynamics, and is bolstering cockpit safety alarms, all in addition to providing increased pilot training. As Boeing makes these changes, the testing and certification process from global air travel regulators is expected to take several months to be complete, at which time the affected 737s can return to flying.

The 737 Max is an important plane to Boeing. Despite the modest count of planes currently in service, Boeing has over 5,000 orders in its production book. The obvious concern among investors is that confidence in the plane's safety will erode, to the detriment of future sales. More immediately, Boeing is facing financial compensation exposure both to the families of crash victims, and to airlines flying the plane for its unplanned downtime. We believe those exposures, as they take shape, to be very manageable for the company.

Faced with elevated uncertainty, we have opted to trim a portion of our Boeing investment for those clients who hold it in one of our investment strategies. We think reducing our Boeing exposure is a wise risk-management call. That said, we are continuing with a meaningful investment position in the name. Despite the negative headlines and tragic loss of life from these crashes, we do not expect long-term damage to the 737 franchise. We expect that Boeing will be successful in identifying and correcting any safety problems with the aircraft, and the company will continue to thrive as a prime enabler of air travel for citizens around the globe. As always with our investment holdings, if the facts change, then we will reevaluate our ownership thesis.