Hannon Armstrong Sustainable Infrastructure
Third Quarter Earnings Conference Call
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Presenters
Neha Gaddam, Senior Director of Investor Relations, Corporate Finance
Jeff Lipson, President, Chief Executive Officer
Marc Pangburn, Chief Financial Officer
Susan Nickey, Chief Client Officer

Q&A Participants
Noah Kaye - Oppenheimer
Mark Strouse - J.P. Morgan
Chris Souther - B. Riley Securities
Ben Kallo - Baird
Julien Dumoulin-Smith - Bank of America
Jon Windham - UBS
Jeff Osborne - Cowen & Company

Operator
Greetings and welcome to HASI's Third Quarter Earnings Conference Call and Webcast.

At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Neha Gaddam, Senior Director, Investor Relations and Corporate Finance. Please go ahead.

Neha Gaddam
Thank you, Operator. Good afternoon, everyone, and welcome. Earlier this afternoon, HASI distributed a press release detailing our third quarter 2023 results, a copy of which is available on our website. This conference call is being webcast live on our Investor Relations page of the website, where a replay will be available later today.

Some of the comments made in this call are forward-looking statements, which are subject to risks and uncertainties described in the risk factors section of the company's Form 10-K and other filings with the SEC. Actual results may differ, materially, from those stated. Today's discussions also included some non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is available on our posted earnings release and slide presentation.

Joining me on today's call are Jeff Lipson, the company's President and CEO; Marc Pangburn, CFO; and Susan Nickey, our Chief Client Officer. Susan will be available for the QA portion of our presentation.

Now I'd like to turn the call over to Jeff, who will begin on Slide 3. Jeff.

Jeff Lipson
Thank you, Neha, and good afternoon, everyone, and thank you for joining the call. We had an outstanding quarter as measured by nearly every meaningful metric, and the business remains positioned for future success. Before we discuss the quarter, I'll address an item of recent market perception.

A sentiment has emerged recently which has been weighing heavily on stocks related to the energy transition. This perception assumes renewables and other clean energy sources are no longer economically viable due to the higher costs of capital, driven by the higher for longer outlook for interest rates and that this impact will cause a substantial slowdown in project development and deployment of clean energy.

We believe this view is not accurate. In fact, the energy transition is in its early stages and continues to grow on a steady long-term trajectory.

Just this week, the American Clean Power Association reported record-breaking third quarter U.S. capacity installations and 10% year-over-year growth in the utility-scale wind, solar and storage project pipeline. Although not every project remains viable, clean energy demand remains elevated, and the levelized cost of renewable energy remains competitive or less expensive than the alternatives.

As one example, the AI-driven build-out of data centers has created significant incremental demand for renewable electricity. Likewise, the higher cost of capital and other input costs are being passed on to the end user due to the ongoing growth in demand, particularly from corporate buyers with ambitious net-zero goals and utility off-takers.

These economic dynamics continue to validate our business model as a provider of capital to the energy transition. The energy transition is a long-term, non-cyclical macro trend, and our team is well-situated, enthusiastic and capable of continuing to work with our clients to meet the demands of this transition.

Further evidence of the strength of our business model is in our third quarter and year-to-date results. We are reporting record quarterly distributable earnings of $0.62, record quarterly volume of almost $1 billion, and year-to-date total volume of $1.8 billion, which is similar to annual volume, over the prior three years.

In addition, consistent with our objective discussed throughout this year, we are reporting investment yield on new balance sheet investments year-to-date of greater than 9%, well above the expense of our incremental year-to-date debt, resulting in continued healthy margins.

These results and the outlook for the business allow us to affirm our existing guidance of 10% to 13% EPS growth and 5% to 8% dividend growth, through 2024.

As Mark will discuss, we have deployed a thoughtful, diverse and strategic capital plan in 2023, despite challenging markets. The $1.5 billion of debt and equity we have raised has resulted in a strong balance sheet and liquidity position and has allowed us to continue to operate the business with a strategic, long-term focus rather than under any short-term duress.

This capital raising in 2023, coupled with the substantial investment volumes, has also situated the business such that we do not require incremental equity to achieve our guidance. We always have and remain focused on diversifying our liquidity sources, including our recent initiatives to develop incremental channels of off-balance sheet growth that we refer to as capital likeness.

Turning to Slide 4, I would like to discuss how well positioned we are to achieve our EPS guidance in the range of $2.27 to $2.53 per share in 2024. In part due to our success in 2023, increasing the portfolio by $1.2 billion so far this year, we are well situated for earnings growth in 2024.

In fact, we can attain the guidance level of EPS without any new equity issuance nor any new balance sheet investments. No incremental debt is necessary and our gain on sale and fees can be consistent with the annual levels over the past three years. Therefore, our path to achieving guidance has limited variables.

Turning to Slide 5, I believe a company should always have an executable plan to focus the organization. Our action plan in this period of volatile capital markets is displayed here. General capital scarcity has provided an investment opportunity at even higher level of return than we've seen in 2023, year-to-date.

The average yield of investments in the pipeline is greater than 10%, and these are investments consistent with the risk profile of our existing portfolio. We intend to fund these new attractive investments with balance sheet rotation of seasoned assets and debt issued outside the capital markets. We also plan to expand our securitization program; we've utilized to fund $6 billion of investments off balance sheet.

The final item in the action plan is to make further progress, executing transactions with private capital providers that allow us to continue investing, utilizing off balance sheet sources of capital. All of our success in 2023, closing a large volume of transactions at an attractive yield, has positioned the business to expand our capital aid initiatives at a reasonable pace.

It is important to note that our company has a long history of executing on these action plan items. We have a demonstrated track record of adapting our capital and funding structure in a way that allows us to continue to actively invest and grow our earnings per share. Therefore, this action plan fits well within our comfort zone.

Slide 6 is a good summary of our year-to-date investment activity, highlighted by our $1.8 billion of volume at an average yield greater than 9%.

Notably, our fuels, transport and nature segment has been very active, producing 38%, or over $600 million of the 2023 volume. We remain very disciplined regarding margins and expect future investments to be at an attractive margin to our cost of funds.

On Slide 7, our investment pipeline of greater than $5 billion is well diversified among non-cyclical and uncorrelated end markets. Customer demand for renewable power continues to drive more opportunities, and higher PPA prices allow projects to pass on higher costs.

As discussed earlier, energy transition assets remain economic and strongly preferred by many users, due to climate goals and cost competitiveness versus alternatives. I will also reiterate that the return profile in these pipeline investments is well above our current portfolio yield and at a strong margin to our cost of funds.

Now I'll turn the call over to Marc Pangburn to detail our financial results.

Marc Pangburn
Thank you, Jeff. I'll begin on Slide 8 by summarizing our financial performance. Simply put, our third quarter and year-to-date execution continues to prove our adaptability to a rapidly changing macroeconomic environment.

In the third quarter, we are reporting record distributable EPS of $0.62. We closed a record amount of new transactions at $973 million, and these transactions were at record yields.

Over the last year, we grew our portfolio by 41% to $5.5 billion and managed assets 22% to $11.5 billion. Continued growth of our portfolio translated to a 20% increase in year-to-date distributable NII to $160 million, meaningfully, increasing our long-term recurring income.

Amplifying Jeff's comments earlier around our existing capital light activities, we also recorded $69 million of gain on sale, fees and securitization income for year-to-date 2023, reflecting an 8% increase, year-over-year, and a notable increase in our securitization income, which is now $13 million for the same period. This included a balance sheet rotation where we were able to securitize an on-balance sheet portfolio of seasoned land assets at a gain.

Turning to Slide 9, our portfolio yield increased for the second quarter in a row from 7.7% to 7.9%. Year-to-date, our yield on the portfolio increased by 40 basis points after being relatively constant for four years.

In the third quarter, we funded $865 million. We anticipate funding additional commitments of $645 million, through 2024.

Year-to-date, our portfolio has grown at a record pace, $1.2 billion compared to a $700 million average over the prior three years and reiterating Jeff's comments on the business mix, FTN has grown from 4% of the portfolio at year-end '22 to 13% ,as of Q3 '23, driven primarily by RNG.

I'd like to take a moment to reiterate a few common characteristics of our portfolio. We typically invest with some form of preference. Not only do we have preference, we also invest at the asset level. This creates a non-cyclical dynamic where changes in interest rates or client growth have minimal impacts on portfolio performance. It also mitigates corporate risk as the various service providers to projects can be replaced based on performance or disruptions at the corporate level.

Another common attribute of our investment profile is that we typically do not take development risk. We invest based on asset collateral when the economic value of any particular project has been established.

Certain segments of the energy transition are more or less economic today. For example, energy efficiency, solar and RNG continue to have strong viability and to briefly address recent industry news, we have no offshore wind in our pipeline or portfolio.

On Slide 10, we're pleased to report growth in margins due to faster growth in our portfolio yield at 7.9%, compared to interest expense of 4.9%. We will continue our disciplined investing strategy of pricing new assets at a margin to our current cost of funds.

Last quarter, we provided additional context to address questions on our ‘25 and ’26 bond refinancing. As a reminder, the base rate for the expected bond refinances are currently hedged around 3%. Based on the market spreads updated for yesterday, the theoretical refinancing would result in a blended cost of debt of 5.7%.

While we continue to evaluate higher yielding new investment opportunities, even if we close no additional transactions, the spread would result in a greater than 11.5% ROE.

Turning to Slide 11, our liquidity remains robust, and I'm pleased to provide additional specificity around our debt-raising activities. Starting on the top left, our liquidity is strong with a total of over $710 million of cash and undrawn revolver capacity. The total liquidity includes

$165 million, which relates to an upsize of our unsecured Term Loan A, which was closed after quarter end.

Our current leverage is 1.7%, which provides additional room to utilize debt to fund further portfolio growth, while operating within our leverage target. Eighty eight percent of our debt is either fixed or hedged, and the process around the REIT tax conversion is proceeding smoothly.

Now I'd like to highlight recent debt raises, all at rates well below our investment yields. Recently, we have upsized and extended a secure debt facility with a hedged interest rate of 6.9%, upsized our TLA, which carries a hedged interest rate of 6.5%, and issued convertible debt with a total cost of 5.6%, inclusive of an option premium to increase the conversion price.

Looking ahead, an example of a path to attractively price incremental debt, we expect to raise secured debt on our portfolio's solar assets based on an expected rating of BBB minus. In the quarter, we raised more than $770 million of incremental debt, including the TLA.

Year-to-date, we've raised approximately $1 billion of debt at a blended rate of 6.5%, driving spreads that resulted in ROE of greater than 13%.

In summary, record EPS, record closings and record asset yields leading to attractive spreads, positioning us well to achieve guidance with no additional equity capital.

With that, I'll turn the call back to Jeff.

Jeff Lipson
Thanks, Marc. Turning to Slide 12, we update our sustainability initiatives, including two items related to the measurement and reporting of the impact of our investments and a recognition that our team remains active in climate justice community service.

We'll wrap up on Slide 13. We continue to execute on our business plan, producing consistent earnings growth, despite challenging capital markets. The long-term fundamentals of our business are very powerful. We continue to operate in growing non-cyclical investment markets, working with active partners, providing capital at the asset level.

Our consistent results over several cycles and operating environments provide a demonstrated track record that we intend to replicate, and we have a specific action plan to thrive during this period of volatility.

We are very proud of our success in the first three quarters of 2023 and have positioned the business for additional prosperity. I thank our dedicated and talented team for continuing to execute on our goals.

That concludes our prepared remarks. Operator, please open the line for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the keys.

Ladies and gentlemen, we will wait for a moment, while we poll for questions. Our first question comes from Noah Kaye with Oppenheimer. Please go ahead.

Noah Kaye
Well, thanks for taking the questions. There were a lot of great details in this presentation, and congrats on a great quarter. I want to ask you about the balance sheet rotation to start. You called out the real estate securitization, and we can see that movement in the balance sheet. Can you talk a little bit about the profiles of additional assets and both, the magnitude of those rotation opportunities and potential incremental lift in average yield you would get from such a rotation?

Marc Pangburn
Sure. So I'd say the profile of the type of investment that would be on our balance sheet and then we could look to securitize would be something that we are likely currently already securitizing, but before it became an asset class that we could reliably securitize, we would close those assets onto our balance sheet. And they've largely sat on our balance sheet, but they've now been seasoned to a point and proven from a securitization perspective that we can look to pull from that.

We do have additional opportunities to pursue balance sheet rotations. As you might imagine, it's ultimately pulling from a static portfolio, so there is a limit to that. I wouldn't put an exact number on it right now, but I wouldn't be surprised to continue to see more of it like this.

Jeff Lipson
And I think just to add to that, Noah, and thanks for the question, on the bottom right of Page 11 where Marc referenced additional secured debt, that's an example of assets that sit on our balance sheet that we can obtain a rating on, which makes them that much easier to securitize and rotate off. So that's good live evidence of that activity.

Noah Kaye
And that would be sitting within equity method?

Marc Pangburn
Not necessarily. It could either be debt or equity method.

Noah Kaye
Okay. Very helpful. I think just one more. It looks, certainly, as though RNG has become a significant part of the growth story for the company. You talked a little bit at your Investor Day about additional asset classes, maybe two years to three years down the pike. Maybe you could talk a little bit about where you have conviction or greater interest in those opportunities today, how those asset classes are maturing. Certainly, we'd love to hear from Susan as well, if you don't mind.

Susan Nickey
Sure. Thanks, Noah. Yes, renewable natural gas has been a growth market and has strong projections for a 25% market continued growth. But with corporate demand also looking to decarbonize across all their different sectors, there's increasing demand and also economies that scale from other renewable fuels or transport and decarbonization of different parts of the industrial sector.

So we continue to monitor those and watch as we're still waiting for guidance on some of the tax credits that are expected to come out at the end of this year, which will also help support the growth and scaling of some of those new sectors.

Noah Kaye
Yeah, we're all hoping for those clarifications and, hopefully, that's something we can revisit in future calls. All right, thank you very much.

Jeff Lipson
Thank you.

Marc Pangburn
Thanks, Noah.

Operator
Thank you. Our next question comes from the line of Mark Strouse with J.P. Morgan. Please go ahead.

Mark Strouse
Yes, good afternoon. Thanks for taking our questions. I wanted to go to the comments about the yields being above 10% for the pipeline. Can you talk about how broad-based that might be versus how much of that is driven by kind of maybe an increasing mix towards FTN?

Jeff Lipson
I would characterize it, Mark, as broad-based. I think we're seeing yields at that level, given where markets and capital are right now in really all three of our segments. That's not overly driven by FTN.

Mark Strouse
Okay. And then I appreciate the commentary about the 2024 targets being able to be met without or I guess, sorry, with the gain on sales being kind of in line with where they've been the last few years. How are you thinking about that model, though? Maybe that presents maybe a downside scenario, but are you thinking that 2024 could be a higher year for that line item than what you've got this year?

Jeff Lipson
Well, it certainly could be a higher line item. That's one that you need to recreate, every year. But I think our forward pipeline of assets that can be securitized gives us strong confidence that where we're tracking towards this year, we'll be able to achieve again next year and thereby, able to achieve our guidance.

And remember, those parameters to achieving guidance that we laid out are meant to be sort of the bare minimum. That's not actually our plan, of course. So, I think we, from a gain on sale perspective, remain confident that we'll be able to replicate this year again next year and there is some chance we'll exceed it.

Mark Strouse
That makes sense. Okay. Thanks, Jeff.

Operator
Thank you. Our next question is from Chris Souther with B. Riley Securities. Please go ahead.

Chris Souther
Hi, guys. Thanks for taking my questions here. So, essentially it seems like we're saying with today's balance sheet and kind of normal gain on sale we're already at, next year's guidance but, there's obviously kind of a big pipeline of opportunities here that you guys are looking to execute on.

Can you kind of just walk through puts and takes around the impact that rotation of assets would have on the balance sheet size and therefore, what we would get as far as net investment income next year versus kind of the new stuff that's coming on? I'm just wanting to kind of square away--it sounds like we're saying there's potentially kind of good upsides to the guidance for next year.

Jeff Lipson
Sure. Thanks, Chris, and I'll start and maybe Mark will add to this answer. But I would start by saying the portfolio balance, given all of the volume we did this year and a decent amount of it in the back half of the year, of course, creates a dynamic where the average portfolio balance next year is already going to be unambiguously higher than this year. So, that creates earnings growth in and of itself.

In terms of executing on the pipeline, as we talked about some of these balance sheet rotation ideas and some of the things we're developing in terms of other off-balance sheet channels will help us on that pipeline. But we'll obviously be in a somewhat, call it capital first mode, where we want to make sure we've identified the source of funds, before we move forward too actively on the forward pipeline.

So, I think that's the dynamic that's occurring now, given the volatility, but we remain confident in developing these sources and actually executing on some of that pipeline.

Chris Souther
Okay. And then as we're looking at the kind of levers here, rotation of existing assets, would the $1.2 billion of receivables that are yielding below 8% be kind of the first lever there? And then as we're looking at new assets, can you kind of just walk through the decision tree between having the balance sheet, securitization, co-invest between specific projects that you're evaluating? Obviously, the yield and asset class are kind of the main two there, but just how you're kind of approaching that decision tree on new assets would be helpful.

Jeff Lipson
So, it is in some regard an optimization exercise. So for example, if we have assets on the balance sheet that we could securitize at a gain and replace with new assets that are 300 basis points higher on yield, that's a bit of a no-brainer and obviously, we'll execute on transactions that look like that.

Likewise, as Marc said, leverage is 1.7%, which gives us additional room for additional debt, and he laid out some perspective sources of debt that we think will be cost effective, particularly given the yield on these investments in the pipeline, so that is another source there, as well.

And then some of these off-balance sheet sources that we're working on with some new partners, will be next in line behind those two, as well. So again, that's how I think about the decision tree of raising additional funds to take advantage of this opportunity.

Marc Pangburn
And I'd just add one comment, which is that the potential balance sheet rotation that could lead to a securitization, for example, would generally be some of the lower yielding, lower risk assets, because that is--has generally been what's gone through our securitization program.

Chris Souther
Okay. Maybe just last one, how should kind of ROE evolve with some of these capital line activities thicken up potentially for next year, and then I'll hop in the queue.

Jeff Lipson
So, the long-term big picture answer to that question is these are enormously ROE accretive initiatives because they use very little of our own capital. When you add the modifier impact

next year, I would go back to my comment around pacing that some of these things we're working on will take some time. And I don't want to over promise exactly in '24 what the impact will be but, long-term, the ROEs will benefit from these type of off balance sheet activities.

Chris Souther
Thanks.

Operator
Thank you. Our next question is from Ben Kallo with Baird. Please go ahead.

Ben Kallo
Hey, thank you guys. Good evening. Congrats on the results. Jeff, just a question about just as we see the yields tick up, are you taking on more risk and if you could just address how that is, especially as you shift to different asset class. Then I have a follow up.

Jeff Lipson
Yeah, thanks for the question, Ben, and we do get that question a lot, as well. I think the natural inclination of folks that hear higher yield is to assume it's at higher risk, and so we need to keep reminding folks over and over again, in our case, it's not higher risk. It's really where the projects have gone given base rates, given the capital dynamics in the market, right now.

These are, in many cases, the exact same investment in things like grid connected solar, resi solar that we've done, historically, at significantly higher yields than we were doing, call it, 18 months to 24 months ago.

And then some of our new asset classes, as you referenced, we're underwriting them with the exact same criteria. We're seeking the exact same attributes in terms of client relationships, monetizing contractual cash flows, such that they're identical risks to what we've done, historically. So this is higher yield at same risk and thank you for asking because we want that to be very clear.

Ben Kallo
And just following up, when we think about the guidance here, and I think this has been asked before, but '24 and then onward, how do you think about the ability to grow without accessing capital markets, beyond '24?

Jeff Lipson
So, I think it's about having multiple levers and we've historically had this securitization platform, access capital markets for the balance sheets and we're working on balance sheet rotation and some of these additional levers that we're calling capital late. And I think we have a vision that, eventually, capital markets will come back as well and will be active there, but

until they do, we want to make sure we continue to utilize and develop new levers so that we can take advantage of this investment opportunity.

As it relates specifically to the impact of all this on '25, again, as we've said before, we expect to talk about that more and more in February, but not on this call.

Ben Kallo
And would you, thank you, last question. When you talked about the benefits of not being a REIT, we've heard about the IRA getting tax equity transfers. How do you play into all this evolving market? Does it not being a REIT structure help you? What's the disadvantage of this?

Jeff Lipson
So, the way to think about that is migrating away from REIT status removes the constraint that would have occurred a few years down the line, since we remain primarily active in non-REIT qualifying investments, the REIT test would have become a constraint. They haven't been a constraint historically, or not a constraint this year, but would have in the future. So for that and some other reasons that we articulated on last quarter's call, it makes perfect sense for us to seek an alternative tax election, at this point.

Ben Kallo
Thank you.

Jeff Lipson
Thank you.

Operator
Our next question is from Julien Dumoulin-Smith with Bank of America. Please go ahead.

Julien Dumoulin-Smith
Hey, team, thank you. Good afternoon. Appreciate the time. Actually, just, I was going to kick off here, but just since Ben was asking, tax equity and the dislocation here, is there an opportunity where you step into obligations, given the situation where we could see some rules change and some tax commitments in '24 prove to be less attractive, if you will? Is that a tactical opportunity for you as you look ahead here given some of the capital changes with Basel?

Marc Pangburn
Julien, I just want to clarify. Are you asking about us stepping into the role of a tax equity provider?

Julien Dumoulin-Smith

Yeah, I know that that was something that I think some of the defunct structures before you looked at, at some point, but again, I would imagine the newer structure is probably less appealing, but I figured I'd ask here since you've done that in the past.

Marc Pangburn
Yeah, thank you for the clarification. No, I would say that that is unlikely to be a target opportunity for us, and it's probably--you already identified it, but the newer the tax equity, the transaction, the more heavily weighted it is to tax benefits, and we have plenty of tax benefits right now, and so we wouldn't necessarily be targeting that as a potential opportunistic transaction.

Julien Dumoulin-Smith
Got it. Okay, excellent. Sorry, back to our scheduled program. As far as the rights offering and update here, can you give a little bit of context as to sort of the thought process behind pursuing that potential avenue here? Not every day we see companies with rights offerings, so if you could just give a little context.

Jeff Lipson
Sure. We view that as sort of an ordinary course item. It's not directly related to removing the REIT or revoking the REIT election, but it did come up in the research as we were reviewing items related to revoking the REIT election, and it's a simple rights plan to preserve our NOLs.

There's been about eight of them this year, prior to us. There's been over 250 of them in the last 15 years or so. So, it's really nothing other than putting in place a structure that is very common in the marketplace to preserve our NOLs.

Marc Pangburn
Those same tax benefits that I quoted as to why we don't need to do tax equity are the same tax benefits we'd like to keep to make sure we're very tax efficient.

Julien Dumoulin-Smith
A hundred percent. That makes a ton of sense, and I appreciate that. And then lastly, if I can, you guys have kind of steadily given us data points on pipeline, backlog, interest rate swaps. You provided a lot of the puzzle pieces here to put the outlook together, but you haven't quite put the cherry on top in terms of putting in consolidating guidance.

How do you think about the timeline for giving that post-'24 view, at this point? Again, I know that you've teed up a lot of these points, but I'm curious on when and how we get that, and actually even what metrics you think you'll be providing as you kind of really fully refresh and reconstitute here, if you will, under your post-REIT.

Jeff Lipson

Good question, Julien, and the short answer is February, and that's been our cadence to talk about updating guidance in the fourth quarter call. I think, to your point, we're also working on looking at our metrics in the post-REIT world and making sure they're still the appropriate metrics and deciding whether it would be helpful to investors to have a new metric or two.

So we'll be talking about that in February, as well. So, I think it should be clear from our report here today that the outlook for the company is strong, but to get a little more specific about '25, we need a little more time to complete our business planning in November and December, and we'll talk about that in February.

Julien Dumoulin-Smith
Right, but maybe the core point here, if I were to get at the heart of it, is your confidence in the growth pipeline and the net spreads available, there's nothing about your historic statements about asset growth in the portfolio that would somehow deviate, given the new interest rate environment or anything that's transpired in the interim here, right? Sort of a double-digit type portfolio growth is still the aspiration here.

Jeff Lipson
Well, I certainly confirm the first part of what you said, that the higher interest rate environment has proved not to be an impediment to our business, and we've adapted, as necessary, our model to higher yields at a margin to today's debt costs. And that process has gone very well, as evidenced by the results here today, and that adaptable, flexible business model outlook is unchanged. So, I certainly confirm that part of what you said.

Julien Dumoulin-Smith
All right, fair enough. I'll leave it there, guys. We'll talk in 4Q.

Marc Pangburn
Thanks, Julien.

Jeff Lipson
Thanks, Julien.

Operator
Thank you. Our next question is from Jon Windham with UBS. Please go ahead.

Jon Windham
Okay, great results. We're actually finding a pretty target-rich environment, like capital. Maybe just help me to clarify a couple of things. There's a relatively big provision for loss in the quarter. I know they pop up every now and then. Can you just talk through what that, once again?

Marc Pangburn

Sure. So that was primarily related to the CECL that gets put on when we put new loans on the balance sheet, and a very large portion of the volume that was funded this quarter were in the form of loans. That's the primary.

Jon Windham
Okay, great. And then can you just--obviously, the residential solar part of the clean energy market right now is struggling a little bit, and maybe even in particular SunPower just had some announcements about its accounting. Can you just remind people what the relationship is there with SunPower and your preferred position within the cash flows? Thanks.

Marc Pangburn
Sure. Thanks for asking. So we have a joint venture with SunPower that exclusively exists to hold assets that they essentially originate, and when those assets are operating, they sell them to this partnership. That, of course, moves it off balance sheet from their perspective.

Our role in that is really just to monetize the cash flows from the underlying asset portfolio, and that really just to emphasize some comments I made in the prepared remarks drives the fact that our performance is very much disassociated from the corporate performance of any of our clients, not just SunPower.

And so our role in that is we do have a preference on the cash flows, and the performance of those underlying portfolios are holding up well and in line with our underwriting expectations. And I would just add that SunPower has been and we expect will continue to be a great partner of ours, but our role in the residential solar market is really just to monetize cash flows.

Jon Windham
Great stuff. Thanks so much for the time.

Jeff Lipson
Thanks, Jon.

Marc Pangburn
Thanks, Jon.

Operator
Thank you. Our next question is from Jeff Osborne with Cowen & Company. Please go ahead.

Jeff Osborne
Thank you. Most of my questions have been answered. Maybe just to follow up on the residential solar side. I think the Crowe Bond Writing Agency data suggests that default rates on solar loans historically that have been securitized have increased in the last six to nine months. Are you folks seeing that on your books?

Marc Pangburn
One clarification, just to make sure we're talking apples to apples, is that our—a vast majority, I don't have a number, but let's just say 95% of our residential solar portfolio are leases and not loans. So I just wanted to make a clarification on that.

In terms of delinquencies, we certainly see them move around, but compared to the way we underwrote these transactions, the total transactions are continuing to perform in line with our underwriting expectations.

Jeff Osborne
And you've talked a lot about adapting around the deals in terms of raising rate environment. Have there been any noticeable changes on accrual rates or IRR related investments? Has that played out?

Marc Pangburn
Sure. So I would say in terms of accruals, no. We do have a process where roughly every six months we re-underwrite our EMI investments with the general lens of how would we invest in them today.

And to the extent that re-underwriting is different from how we have them currently on the balance sheet, we would update our yield expectations accordingly, and that would then flow through into the portfolio yield, that 7.9% that we report on quarterly. And so, yes, there have been changes over time, but that's the normal course of how we look at those models.

Jeff Osborne
Got it. That's all I had. Thank you.

Jeff Lipson
Thank you, Jeff.

Operator
Thank you. As there are no further questions at this time, ladies and gentlemen, that concludes today's teleconference. Thank you for your participation. You may now disconnect your lines.