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Hannon Armstrong Releases 2019 Annual Report and CEO Letter

ANNAPOLIS, Md.--(BUSINESS WIRE)-- Hannon Armstrong Sustainable Infrastructure Capital, Inc. ("Hannon Armstrong," "we," "our" or the "Company") (NYSE: HASI), a leading investor in climate change solutions, today announced the release of its 2019 annual letter to shareholders, authored by the Company's Chairman and Chief Executive Officer, Jeffrey Eckel. The letter is included in the Hannon Armstrong 2019 Annual Report, which can be viewed and downloaded from Hannon Armstrong's Investor Relations website at www.investors.hannonarmstrong.com/.

Dear Stakeholders:

There are so many positive developments in the burgeoning climate solutions market. As efficiency, wind, solar, and storage technologies continue to get cheaper, their deployment is spreading rapidly. Our client base in this sector is expanding, with established players growing and new entrants, from large multinationals to venture-backed digital companies, all investing heavily to drive our decarbonized electric power future. We see the transportation sector shifting to electric vehicles, which, when combined with lower carbon electricity sources, demonstrates a compelling decarbonization trend. In agriculture, the successful IPO of Beyond Meat affirms the potential to provide the world the protein it needs, at a fraction of the carbon cost of traditional agriculture.

Driven by younger generations who will have to live with climate change and increasingly by owners of capital, such as pension funds, the reallocation of capital based on a more realistic assessment of climate risk and opportunity is starting. I believe this shift will accelerate much faster than many incumbents appreciate.

We believe our early adoption of climate-positive investing has attracted like-minded investors to become owners of Hannon Armstrong, contributing to our strong stock performance in 2019. In addition, our $500 million inaugural corporate green bond issuance this year generated material demand from investors searching for investments with a verifiable carbon-reducing impact.

What the banks and, unfortunately, many politicians don't realize is that there is a fundamental change occurring in the economy. BlackRock's CEO Larry Fink made waves recently when he said, "we are on the edge of a fundamental reshaping of finance" because of climate change. But the real question is how will this transformation toward sustainable finance actually unfold? I submit there are three key developments that must occur quickly if we're going to seriously address the climate crisis.

First, banks and investors must ask themselves, “Does this investment accelerate or slow climate change?” – a simple but fundamental question most Wall Street banks and asset managers are inherently reluctant to ask because it represents a line that challenges their entrenched business models. For example, the CEO of a major investment bank remarked that they would not “draw a line” on climate change and would continue to raise money for fossil fuel companies.

Yet business as usual for fossil fuel investing will increase greenhouse gas emissions for decades, something we do not have time for. At Hannon Armstrong, we take a different approach. Every investment improves our climate future. We invest on the right side of the climate change line every single time. It’s what we do. It’s all we do.

Second, every investment’s carbon impact needs to be publicly disclosed. The owners of capital, such as pension funds, must require this disclosure from the banks and asset managers who invest their money. It was BlackRock’s clients who were instrumental in the firm’s recent decision to start integrating sustainability into their offerings, demonstrating the power the owners of capital have in driving change. But for this change to scale, the data must be available. Since 2013, Hannon Armstrong has certified the climate impact of every investment with our Sustainability Report Card, the latest edition of which is included in our 2019 annual report.

Finally, investors need to measure the efficiency with which capital is reducing climate change. CarbonCount®, a tool we developed, is a straightforward ratio that measures the GHG reduction per dollar of investment. The concept is simple: if carbon counts and capital is scarce, we ought to prioritize the most impactful investments for mitigating climate change.

Unfortunately, when it comes to Wall Street incumbents financing the fossil fuel industry and locking in incremental climate-changing greenhouse gas emissions for decades, it is still business as usual. While some are adding Environmental, Social and Governance (“ESG”) considerations and sustainable investing opportunities to their business mix, the “fundamental reshaping of finance” required for mitigating climate change will not be achieved until the three pillars above are adopted across the capital markets.

2019 Review and Outlook for 2020

We invested a record $1.3 billion in 2019, delivering a 65% increase in GAAP earnings per share and a 22% increase in Core Net Investment Income, year over year, 2018 to 2019. Solar investments were particularly strong in 2019, including utility-scale, community, commercial, and residential solar investments. Energy efficiency was strong for both institutional and commercial properties.

At year-end 2019, our forward-looking yield increased to 7.6% from 6.8% in 2018. We continued our asset rotation out of lower-yielding, highly levered transactions to higher-yielding, less levered assets. Core return on equity of 10.4% was above our target ROE. We secured a corporate rating and successfully entered the corporate bond market with well-received issuances of unsecured debt. Access to the corporate bond market reduces our cost of capital and substantially improves our funding flexibility.

Fortunately, the equivocation we see from many incumbent financial services firms, discussed above, is not seen among our client base, which is growing in both number and capabilities. Our clients, including some of the best engineering firms in the world, are driving the technologies that will produce rapid decarbonization in the electric and transportation sectors. As a result, our year-end pipeline for 2020 is robust, diversified, and impactful.

ESG Reporting

There was much debate in 2019 over the usefulness of ESG reporting given the range of standards and their inconsistent application. I believe ESG reporting should be standardized and, just as importantly, integrated into annual financial reporting. ESG reporting matters because its elements are material to financial results. At Hannon Armstrong, an emphasis on a durable social fabric, including a diverse, engaged, and fairly compensated staff, is a material factor in our financial success. Similarly, our top-notch corporate governance practices assure our shareholders that our team will stay on track and deliver results. And of course, the environmental impact of the firm is embedded in our DNA with CarbonCount.® We are proud to remain a leader in ESG performance and reporting.

Conclusion

Thank you for investing in Hannon Armstrong and joining us in the transition to a low-carbon and climate-resilient economy. It is enormously gratifying to have an impact on the central issue of our time and to work with like-minded professionals who cannot separate what they do from why they do it. I am inspired and honored to work alongside this team every day.

Respectfully,

Jeffrey W. Eckel
Chairman and CEO

About Hannon Armstrong

Hannon Armstrong (NYSE: HASI) is the first U.S. public company solely dedicated to investments in climate change solutions, providing capital to leading companies in energy efficiency, renewable energy, and other sustainable infrastructure markets. With more than $6 billion in managed assets as of December 31, 2019, Hannon Armstrong's core purpose is to make climate-positive investments with superior risk-adjusted returns. For more information, please visit www.hannonarmstrong.com. Follow Hannon Armstrong on LinkedIn and Twitter @HannonArmstrong.

Forward-Looking Statements*:*

Some of the information contained in this press release is forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended that are subject to risks and uncertainties. For these statements, we claim the protections of the safe harbor for forward-looking statements contained in such Sections. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-looking statements.

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Investor Relations Contact:
Chad Reed
410-571-6189
investors@hannonarmstrong.com

Media Contact:
Gil Jenkins
media@hannonarmstrong.com
443-321-5753

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