DEAR STOCKHOLDERS:

Jeffrey W. Eckel
Chairman, President and CEO

The decision to take Hannon Armstrong Sustainable Infrastructure Capital, Inc. (NYSE:HASI) public in April 2013 was based on the belief that we could offer investors a unique opportunity to earn an attractive risk-adjusted return by investing in the growing class of sustainable infrastructure assets. I am pleased to report that in 2013, our first year as a public company, we achieved that objective by providing our IPO investors a 22% annualized return from the combination of quarterly dividends and share price appreciation. In addition, we executed on our strategic objectives, including building a diversified portfolio of sustainable infrastructure assets, leveraging our capital and managing interest rate risk. We also achieved dividend growth during the year from $.06/share in Q2 (our first), $.14/share in Q3, and $.22/share in Q4. We like to think of what we do as delivering Sustainable Yield℠.

The Market Environment

These accomplishments are the summary results of our first year, but they tell the reader little of our story. We went public after 32 years as a private company for two reasons. First, we think climate change is the defining issue of our generation and finance has much to contribute to the adoption of low carbon technologies. Second, we believe the opportunity to finance the de-carbonization of the economy is simply enormous, as industries like the 100+ year-old electric utility sector evolve to more sustainable business models.

While we are open to financing all sustainable infrastructure assets, we continue to focus on the large opportunity to provide financing for distributed energy assets, which include assets that either reduce energy consumption, like LED lighting, or reduce carbon in energy production, like solar on buildings. These assets won't replace the electric utility, but they are expanding and redefining what we value in energy. We've only ever wanted energy for lighting, for heating or cooling, to pump water or drive machines, but now we want it to be more reliable and more sustainable, at a lower cost to us and future generations. This is the promise of distributed energy assets. And here's the best part: most of these distributed energy assets need the financing HASI provides. Customers can save money and energy by financing projects with HASI. For example, the U.S. Government, the largest user of electricity in the country, is well on its way to reducing consumption by 30%, not with subsidies, but with lighting, heating, cooling, and distributed generation. The HASI finance opportunity includes all consumers of energy from federal, state or local governments, commercial and industrial companies and residential consumers.

Many lower carbon solutions mean higher upfront capital costs but lower ongoing operating and fuel costs. This is a classic finance problem that HASI solves: use finance to ensure that efficient and economical assets are adopted, despite high upfront capital costs. Just as a home mortgage allows people to spread the cost of a home purchase over time, HASI provides financing so that the costs of distributed energy assets are spread over the useful lives of the assets. To be clear, it is our clients, the energy service companies and project developers, who create the innovative engineered solutions that our financing enables. We are grateful for the chance to use our capital to help our clients sell these sophisticated systems as a service.

2013

From April 23, 2013, the date of our IPO, through December 31, 2013, we completed approximately $632 million of transactions, of which 62% were for energy efficiency projects, 32% for clean energy projects, and the remaining 6% for infrastructure projects. Our year-end on-balance sheet portfolio, from which we earn investment income, was approximately $468 million, with approximately 96% of the transactions considered investment grade. Among the assets we financed in 2013 were distributed wind projects for the U.S. Federal government in Texas and various corporate entities in California, deep energy efficiency retrofits for the City of Louisville, Kentucky and a solar farm in Georgia. With a robust pipeline at year end of more than $2.0 billion in new financing opportunities, we look forward to an active 2014.

We lever our capital with a variety of debt instruments and finished 2013 leveraged 1.2:1, as defined in the 10-K, and will continue to add leverage over time to achieve our 2:1 target. We are attuned to the interest rate environment, and while the yield curve continues to be quite favorable to HASI, we believed the timing was right to begin using fixed-rate financing on a portion of our debt. In December 2013, we continued our innovations in financing distributed energy assets by closing a $100 million, 2.79% fixed-rate asset-backed securitization (“ABS”). This HASI Sustainable Yield Bond™ (“HASI SYB”) transaction took a significant amount of interest rate risk off the table, leaving us at year end with 56% of our debt at fixed rates. It was also the first “green bond” to be issued in accordance with the recently established Green Bond Principles. We estimate the HASI SYB 2013-1 has a greenhouse gas (“GHG”) reduction of .61 metric tons per $1,000 bond, the first bond to calculate such impact. We believe we are setting the industry standard for analytical rigor in the green bond market, all the while we are fixing our interest rates at an attractive yield.

Sustainability

As we have continued to grow our business, we are seeing increased interest in the sustainability thesis: sustainable investments represent a lower-risk investment in a world increasingly defined by climate change. These investors appreciate that they are investing in assets that are screened for sustainability before going to our Investment Committee and that we calculate the GHG impact of every investment. We are proud to publish our first HASI Sustainability Report Card in this report, detailing the GHG impact per investment. Assets we financed will reduce emissions by over 331,000 metric tons of GHG per year, equivalent to over 178 thousand tons of coal, and save over 628 million gallons of water annually. This, also, is our Sustainable Yield.

Conclusion

I want to thank the HASI team for an outstanding 2013. It was not an easy year as we changed our business model, took time away from our clients to complete our IPO, put new leverage facilities in place, launched the HASI SYBs ABS program, and, finally, executed to produce the results we did. This was a fantastic team effort. Investors have many choices for investments. I continue to invest in this company because I believe in the mission, I believe in our markets and the growth potential, and I believe in this team. We are looking forward to 2014.

Thank you for investing in HASI.

Respectfully,

Jeffrey W. Eckel
Chairman, President and CEO