

# STOCKHOLDER LETTER



## DEAR STOCKHOLDERS:

Hannon Armstrong makes long term investments in sustainable infrastructure that move the economy and the country forward; investments that generate attractive returns for our stockholders and affirm our employees' commitment to both business success and a positive impact. The essence of our investment thesis is this: better risk-adjusted returns will be achieved by investing on the right side of the climate change line.

There are four attributes our investments generally share that we believe contribute to those returns:

- More efficient technologies waste less and thus enable higher economic returns;
- Smaller increments of capital expenditure create a more diversified portfolio;
- Internalized externalities reduce social costs and friction; and
- Finally, an embedded option on carbon pricing.

In other words, these attributes produce incremental returns or lower our costs and contribute to achieving better risk-adjusted returns for our investors.

## 2016 REVIEW

In 2016 we increased Core Earnings\* 15% for the year ended December 31, 2016, compared to

December 31, 2015. We also raised our dividend 10% and increased assets by almost 20%. We had strong performance in all three of our target asset classes: efficiency, wind, and solar. Our energy efficiency platform continued its expansion into the commercial sector through the property assessed clean energy, or PACE, tax lien structure, and posted strong volumes in both the federal and state/local markets. Our wind investments now include participations in over 2,000 MW of projects, driven by increased investments along-side equity investors for existing wind farms and with new-build wind. The solar markets continue to produce attractive opportunities to own land under utility scale projects and to provide capital for commercial and residential solar assets. We have increased our focus on a fourth investment category—sustainable infrastructure for transmission and water related assets—that we believe will provide opportunities for expanded investment.

## OUTLOOK FOR 2017

Our investments are non-partisan. They support common objectives including job creation, upgrades to infrastructure, and cost savings. Even though our core markets are relatively immune to changes in federal energy policy, we continue to explore new markets that have limited nexus with federal policy, driven by the fundamental economic need

\*Core Earnings is a non-GAAP financial measure. See our Annual Report on Form 10-K for an explanation of Core Earnings and a reconciliation to our GAAP earnings.



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to upgrade aged and inefficient infrastructure. Although today's relatively low level of interest rates are favorable for infrastructure investment, we continue to expect higher interest rates and thus have raised our fixed-rate target to 60%-85% of our liabilities. Our Portfolio of \$1.6 billion in over 130 separate assets, with a blended forward-looking core yield of 6.2% and an average life of 11 years, provides a diversified foundation from which we will continue to grow earnings. We have established a target earnings growth rate of 8%-12% in Core Earnings per share for 2017 as we add assets and increase our financial and operating leverage. Our pipeline of more than \$2.5 billion at year-end continues to be optimized for opportunities that offer the best risk-adjusted yields and support the growth of our clients' businesses.

#### INVESTING IN HANNON ARMSTRONG FOR CLIMATE CHANGE MITIGATION

NASA data shows 2016 was the warmest year on record, breaking the 2015 record. The world's oceans are 30% more acidic than at the start of the industrial revolution, an undisputed fact based on high school chemistry. Increasingly, investors are seeking investments that not only produce attractive returns, but also make a meaningful and calculated difference in reducing greenhouse gas (GHG) emissions. To assure investors we invest according to our thesis, we offer climate disclosure transparency through the

## SUSTAINABLE YIELD<sup>®</sup>

GHG accounting in our Sustainability Report Card and our use of CarbonCount<sup>®</sup> on our Sustainable Yield<sup>®</sup> Bonds (SYBs). Investors in Hannon Armstrong help us make more investments in GHG reducing assets by lowering our cost of capital. An investment in Hannon Armstrong links your capital to a company committed to making a tangible, positive environmental impact.

#### CONCLUSION

Again, I thank the Hannon Armstrong team for an outstanding 2016. We are fortunate to have a staff that is motivated by our mission, guided by excellent investment skills, and committed to working as a team. We look forward to continuing to grow the business thoughtfully, with purpose and discipline for the benefit of our clients, our staff and, of course, our stockholders.

Thank you for investing in Hannon Armstrong.

Respectfully,



Jeffrey W. Eckel  
Chairman, President and CEO

