LETTER FROM THE CEO

Dear Stakeholders:

2020 was an exceptional year of growth and impact at Hannon Armstrong. Notwithstanding the pandemic, we posted record Distributable Earnings, transaction volumes, and carbon mitigation impact. At the same time, we grew as an organization, in part, by recognizing how the needs of the community intersect with investing in climate solutions.

2020 was also a year of tragedy, as the pandemic took its unspeakable toll on the health and livelihoods of millions while several incidents highlighted the urgent need for social justice. However, it was also the year when climate change went mainstream.

In last year's letter, which was published before the outbreak of COVID-19, I focused on questions owners of capital must ask themselves if we are to seriously address the climate crisis – particularly, how efficiently capital is being deployed to reduce carbon. I believe those questions, paired with my 2018 letter advocating for a carbon fee and dividend plan, form a powerful combination of ideas to accelerate the adoption of climate solutions.

For the last fifty years, many companies have closely adhered to the Friedman Doctrine, named after the Nobel Prize-winning economist, who argued that a company's sole purpose is to generate profits for shareholders. But for today's workforce and an increasing number of investors, this doctrine is not only unambitious and unattractive, it is wholly inadequate. With a mission of investing exclusively in climate solutions since we became a public company, Hannon Armstrong embodies a broader ethos – one that recognizes our role as a responsible corporate citizen while continuing to produce outstanding financial results. Undoubtedly, 2020 also broadened our ambition to find ways to incorporate social justice into our business.

As a pioneer in climate solutions investing, we are proud of the Environmental, Social and Governance ("ESG") reputation we have built. Yet 2020 has shown we can and must do more to expand our leadership role in both our local community and nationwide. As part of our response to the pandemic, we focused on the health and well-being of our team and also made significant corporate donations to local organizations addressing critical issues of homelessness, hunger and domestic violence. As the year progressed, team discussions focused on how we can do more. As a result of these efforts, we created the Hannon Armstrong Foundation to identify the intersection of climate change and social justice and determine how best to engage with our community. This flowed from an organic expression of shared values that fits naturally within our culture of fierce curiosity and rigor about outcomes in climate investing. We have declared an initial "Social Dividend" to the Foundation of $1 million. I look forward to reporting on the Foundation's activities in next year's letter.

The social aspect of ESG has also come front and center in our recruitment, hiring and training efforts. While change takes time, we have used 2020 to develop a human capital management strategy designed to improve data collection, establish reporting metrics, and enhance transparency related to the material aspects of our human capital activities. As a result of these efforts, we expect to benefit from material and ongoing changes in the diversity of our staff. You will also notice enhanced disclosures on human capital in our 2020 Form 10-K. Over time, our goal is to continually provide you the data to hold us accountable for progress on this front.

With the Biden administration, we have continued our political engagement to build support for the enactment of economy-wide carbon pricing, ideally in the form of a fee and dividend. We believe the dividend should be structured to eliminate the cost impacts on lower-income families and to advance environmental justice. This

market-based solution has the potential both to accelerate climate solutions at the pace required and improve economic and social equity so that disadvantaged communities are not left behind in the transition to a cleaner, healthier, and fairer economy.

2020 Review and Outlook for 2021

My father told me there are only three ways to make money: sell more, raise your price or lower your costs. In 2020, we did all three. We closed on a record $1.9 billion in transactions, up from $1.3 billion in 2019, preserved our asset yield despite falling market rates, and significantly reduced our cost of capital. That timeless formula produced record earnings of $1.55 per share which exceeded our previous three-year guidance.

- Much of the increase in transactions was accounted for by two large programmatic partnerships. These large portfolio transactions were preceded by much smaller transactions with these clients, which demonstrated to these firms how our focus on solving client problems was accretive to their businesses. We also continued to enjoy success in the smaller niches in our three core markets: Behind-the-Meter, Grid-Connected, and Sustainable Infrastructure.

- At year-end 2020, our unlevered portfolio yield held steady at 7.6%, despite the 10-year U.S. Treasury falling to almost 0.90%. With a long-duration portfolio substantially comprised of non-prepayable, strong credit profile investments, we have locked in stable and recurring income for more than a decade.

- We significantly lowered both our cost of debt and equity capital. The coupon rate on our corporate green bonds has dropped from 5.25% in 2019 to 3.75% in 2020. Similarly, our share price and forward-looking dividend yield indicate a cost of equity that has never been lower. As a result, we have been able to improve our Distributable ROE to 10.7%, marking the fifth straight year it has exceeded 10%.

We are well-positioned for 2021. We believe we will realize the full year benefit of funding the balance of our 2020 transactions plus additional investments that are funded in 2021. The impact is expected to be reflected in higher Net Investment Income and ultimately higher Distributable Earnings. As such, we have issued new guidance for the 2021 to 2023 period of 7% to 10% compound annual growth in Distributable Earnings, higher than the 7% compound annual growth we achieved in the prior three-year period. This signals the accelerated growth we expect in this robust climate solutions market as our client base of the world's leading energy and infrastructure companies continue their expansion. In fact, our clients' ambition is the principal driver for the growth in our 12-month pipeline to more than $3 billion of investment opportunities.

Conclusion

Our investment thesis is simple: in a world increasingly defined by climate change, we will earn superior risk-adjusted returns making only climate positive investments. We have significantly outperformed virtually all broader market and peer group indices in the last year, the last five years, and indeed since our public debut in 2013. Last year, we achieved not only record financial results, but also the highest carbon reductions since our IPO. Our 2020 investments will reduce five times more carbon than our investments in 2019, and with a CarbonCount® of 1.03, 2020 has turned out to be the most efficient use of capital to reduce carbon in our history as a public company.

While I thank you for investing in Hannon Armstrong, we all should thank the professionals at Hannon Armstrong, including our Board of Directors, who executed in 2020 under the most difficult circumstances and yet had enough passion to help this company grow in its awareness of how it can contribute to social justice in addition to positively affecting climate change. I am inspired and honored to work alongside this team every day, but never more than in 2020.

Respectfully,

Jeffrey W. Eckel
Chairman & CEO
March 2021