

Hannon Armstrong Sustainable Infrastructure Capital, Inc.  
Form 10-Q  
May 04, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-35877

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.

(Exact name of registrant as specified in its charter)

Maryland 46-1347456  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1906 Towne Centre Blvd, Suite 370 21401  
Annapolis, Maryland (Address of principal executive offices) (Zip code)  
(410) 571-9860  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 53,251,731 shares of common stock, par value \$0.01 per share, outstanding as of April 30, 2018 (which includes 1,425,178 shares of unvested restricted common stock).

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## FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) 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.

Forward-looking statements are subject to significant risks and uncertainties. Investors are cautioned against placing undue reliance on such statements. Actual results may differ materially from those set forth in the forward-looking statements. Factors that could cause actual results to differ materially from those described in the forward-looking statements are contained in our Annual Report on Form 10-K for the year ended December 31, 2017 as amended by our Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2017 (collectively, our “2017 Form 10-K”) that was filed with the U.S. Securities and Exchange Commission (the “SEC”), and include risks discussed in the Management’s Discussion and Analysis of Financial Condition and Results of Operation of this Form 10-Q and in other periodic reports that we file with the SEC. Statements regarding the following subjects, among others, may be forward-looking:

- our expected returns and performance of our investments;
- the state of government legislation, regulation and policies that support or enhance the economic feasibility of sustainable infrastructure projects, including energy efficiency and renewable energy projects and the general market demands for such projects;
- market trends in our industry, energy markets, commodity prices, interest rates, the debt and lending markets or the general economy;
- our business and investment strategy;
- availability of opportunities to invest in projects that reduce greenhouse gas emissions or mitigate the impact of climate change including energy efficiency and renewable energy projects and our ability to complete potential new opportunities in our pipeline;
- our relationships with originators, investors, market intermediaries and professional advisers;
- competition from other providers of capital;
- our or any other companies’ projected operating results;
- actions and initiatives of the federal, state and local governments and changes to federal, state and local government policies, regulations, tax laws and rates and the execution and impact of these actions, initiatives and policies;
- the state of the U.S. economy generally or in specific geographic regions, states or municipalities, economic trends and economic recoveries;
- our ability to obtain and maintain financing arrangements on favorable terms, including securitizations;
- general volatility of the securities markets in which we participate;
- changes in the value of our assets, our portfolio of assets and our investment and underwriting process;
- the impact of weather conditions, natural disasters, accidents or equipment failures or other events that disrupt the operation of our investments or negatively impact the value our assets;
- rates of default or decreased recovery rates on our assets;
- interest rate and maturity mismatches between our assets and any borrowings used to fund such assets;
- changes in interest rates, including the flattening of the yield curve, and the market value of our assets and target assets;
- changes in commodity prices, including continued low natural gas prices;
- effects of hedging instruments on our assets or liabilities;
- the degree to which our hedging strategies may or may not protect us from risks, such as interest rate volatility;
- impact of and changes in accounting guidance and similar matters;



our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes (a “REIT”);

our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the “1940 Act”);

availability of and our ability to attract and retain qualified personnel;

estimates relating to our ability to generate sufficient cash in the future to operate our business and to make distributions to our stockholders; and

our understanding of our competition.

Forward-looking statements are based on beliefs, assumptions and expectations as of the date of this Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements after the date of this Form 10-Q, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive. Other sections of this Form 10-Q or our 2017 Form 10-K may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

The following discussion is a supplement to and should be read in conjunction with our 2017 Form 10-K.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Equity method investments	\$490,297	\$522,615
Government receivables	514,348	519,485
Commercial receivables	471,077	473,452
Receivables held-for-sale	16,080	19,081
Real estate	340,092	340,824
Investments	151,920	151,209
Cash and cash equivalents	47,150	57,274
Other assets	189,751	166,232
Total Assets	\$2,220,715	\$2,250,172
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable, accrued expenses and other	\$26,528	\$25,645
Deferred funding obligations	136,505	153,308
Credit facility	69,953	69,922
Non-recourse debt (secured by assets of \$1,528 million and \$1,545 million, respectively)	1,214,612	1,210,861
Convertible notes	146,165	147,655
Total Liabilities	1,593,763	1,607,391
Stockholders' Equity:		
Preferred stock, par value \$0.01 per share, 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, par value \$0.01 per share, 450,000,000 shares authorized, 51,826,553 and 51,665,449 shares issued and outstanding, respectively	518	517
Additional paid in capital	770,922	770,983
Accumulated deficit	(150,052)	(131,251)
Accumulated other comprehensive income (loss)	2,086	(1,065)
Non-controlling interest	3,478	3,597
Total Stockholders' Equity	626,952	642,781
Total Liabilities and Stockholders' Equity	\$2,220,715	\$2,250,172

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)  
 (UNAUDITED)

	For the Three Months Ended March 31,	
	2018	2017
Revenue		
Interest income, receivables	\$12,849	\$ 14,118
Interest income, investments	1,541	942
Rental income	5,941	4,110
Gain on sale of receivables and investments	6,256	3,949
Fee income	1,321	681
Total revenue	27,908	23,800
Expenses		
Interest expense	18,711	13,783
Compensation and benefits	5,321	4,726
General and administrative	2,801	2,188
Total expenses	26,833	20,697
Income before equity method investments	1,075	3,103
Income (loss) from equity method investments	(2,285 )	4,171
Income (loss) before income taxes	(1,210 )	7,274
Income tax (expense) benefit	(18 )	(32 )
Net income (loss)	\$(1,228 )	\$ 7,242
Net income (loss) attributable to non-controlling interest holders	(5 )	43
Net income (loss) attributable to controlling stockholders	\$(1,223 )	\$ 7,199
Basic earnings per common share	\$(0.03 )	\$ 0.14
Diluted earnings per common share	\$(0.03 )	\$ 0.14
Weighted average common shares outstanding—basic	51,710,910	47,497,107
Weighted average common shares outstanding—diluted	51,710,910	47,497,107

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (DOLLARS IN THOUSANDS)  
 (UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	\$(1,228)	\$7,242
Unrealized gain (loss) on available-for-sale securities, net of tax benefit (provision) of \$0.0 million in 2018 and 2017	(2,728 )	473
Unrealized gain (loss) on interest rate swaps, net of tax benefit (provision) of \$0.0 million in 2018 and 2017	5,897	989
Comprehensive income (loss)	1,941	8,704
Less: Comprehensive income (loss) attributable to non-controlling interest holders	12	52
Comprehensive income (loss) attributable to controlling stockholders	\$1,929	\$8,652

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities		
Net income (loss)	\$(1,228 )	\$7,242
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,731	2,745
Equity-based compensation	1,845	2,569
Equity method investments	9,052	(1,118 )
Non-cash gain on securitization	(7,256 )	(4,223 )
Gain on sale of receivables and investments	—	300
Changes in receivables held-for-sale	3,243	—
Changes in accounts payable and accrued expenses	(866 )	(742 )
Other	(3,174 )	(1,529 )
Net cash provided by (used in) operating activities	5,347	5,244
Cash flows from investing activities		
Equity method investments	—	(97,656 )
Equity method distributions received	23,387	13,847
Purchases of receivables	(3,441 )	(35,505 )
Principal collections from receivables	10,275	32,222
Proceeds from sales of receivables	—	12,084
Purchases of real estate	—	(106,854)
Purchases of investments	(3,826 )	(10,106 )
Principal collections from investments	744	48
Funding of escrow accounts	(9,655 )	—
Withdrawal from escrow accounts	8,647	—
Other	(297 )	(29,905 )
Net cash provided by (used in) investing activities	25,834	(221,825)
Cash flows from financing activities		
Proceeds from credit facilities	—	235,612
Principal payments on credit facilities	—	(112,228)
Proceeds from issuance of non-recourse debt	30,952	114,424
Principal payments on non-recourse debt	(28,787 )	(15,803 )
Payments on deferred funding obligations	(16,993 )	(30,369 )
Net proceeds of common stock issuances	—	67,840
Payments of dividends and distributions	(17,606 )	(15,850 )
Other	(367 )	(3,379 )
Net cash provided by (used in) financing activities	(32,801 )	240,247
Increase (decrease) in cash, cash equivalents, and restricted cash	(1,620 )	23,666
Cash, cash equivalents, and restricted cash at beginning of period	118,177	59,144
Cash, cash equivalents, and restricted cash at end of period	\$116,557	\$82,810
Interest paid	\$17,427	\$11,526
Non-cash changes in deferred funding obligations (financing activity)	—	33,822
Non-cash changes in receivables and investments (investing activity)	—	(33,822 )
Non-cash changes in residual assets (investing activity)	(7,761 )	(4,223 )

See accompanying notes.

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HANNON ARMSTRONG SUSTAINABLE INFRASTRUCTURE CAPITAL, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
March 31, 2018

## 1. The Company

Hannon Armstrong Sustainable Infrastructure Capital, Inc. (the “Company”) provides capital and services focused on reducing climate changing greenhouse gas emissions (“GHG” or carbon emissions) as well as mitigating the impact of, or increasing resiliency to, climate change. We focus primarily on the energy efficiency, renewable energy and sustainable infrastructure markets. Our goal is to generate attractive returns for our stockholders by investing capital in assets or projects that generate long-term, recurring and predictable cash flows or cost savings from proven technologies. We also provide services to the various partners and counterparties in the markets where we invest. The Company and its subsidiaries are hereafter referred to as “we,” “us,” or “our.” Our investments take various forms, including equity, joint ventures, lending or other financing transactions, as well as land ownership and typically benefit from contractually committed high credit quality obligors. We also generate on-going fees through gain-on-sale securitization transactions, advisory services and asset management. We refer to the income producing assets that we hold on our balance sheet as our “Portfolio.” Our Portfolio may include:

- Equity investments in either preferred or common structures in unconsolidated entities;
- Government and commercial receivables, such as loans for renewable energy and energy efficiency projects;
- Real estate, such as land or other assets leased for use by sustainable infrastructure projects typically under long term leases; and
- Investments in debt securities of renewable energy or energy efficiency projects.

We finance our business through cash on hand, borrowings under credit facilities and debt transactions, various asset-backed securitization transactions and equity issuances. We also generate fee income through securitizations and syndications, by providing broker/dealer services and by managing and servicing assets owned by third parties. Some of our subsidiaries are special purpose entities that are formed for specific operations associated with investing in sustainable infrastructure receivables for specific long term contracts.

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “HASI.” We have qualified as a real estate investment trust (“REIT”) and also intend to operate our business in a manner that will permit us to continue to maintain our exemption from registration as an investment company under the 1940 Act, as amended. We operate our business through, and serve as the sole general partner of, our operating partnership subsidiary, Hannon Armstrong Sustainable Infrastructure, L.P., (the “Operating Partnership”), which was formed to acquire and directly or indirectly own our assets.

## 2. Summary of Significant Accounting Policies

### Basis of Presentation

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material. These financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017, as filed with the SEC. In the opinion of management, all adjustments necessary to present fairly our financial position, results of operations and cash flows have been included. Our results of operations for the quarterly period ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year or any other future period. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Certain amounts in the prior years have been reclassified to conform to the current year presentation.



The consolidated financial statements include our accounts and controlled subsidiaries, including the Operating Partnership. All significant intercompany transactions and balances have been eliminated in consolidation. Following the guidance for non-controlling interests in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation (“ASC 810”), references in this report to our earnings per share and our net income and stockholders’ equity attributable to common stockholders do not include amounts attributable to non-controlling interests.

#### Consolidation and Equity Method Investments

We account for our investments in entities that are considered voting interest entities or variable interest entities (“VIEs”) under ASC 810 and assess whether we should consolidate these entities on an ongoing basis. We have established various special purpose entities or securitization trusts for the purpose of securitizing certain receivables or other debt investments which are not consolidated in our financial statements as described in Securitization of Receivables below.

Substantially all of the activities of the special purpose entities that are formed for the purpose of holding our government and commercial receivables and investments on our balance sheet are closely associated with our activities. Based on our assessment, we determined that we have power over and receive the benefits of these special purpose entities; hence, we are the primary beneficiary and should consolidate these entities under the provisions of ASC 810.

We have made equity investments in various renewable energy projects. We share in the cash flows, income, and tax attributes according to a negotiated schedule (which typically does not correspond with our ownership percentages). Our renewable energy projects are typically owned in holding companies (using limited liability companies (“LLCs”), taxed as partnerships) where we receive a stated preferred return consisting of a priority distribution of all or a portion of the project’s cash flows, and in some cases, tax attributes. We have typically partnered with either the operator of the project or other institutional investors. Once our preferred return is achieved, the partnership “flips” and operator of the project, receives a larger portion of the cash flows through its interest in the holding company and we, along with any other institutional investors, will have an on-going residual interest.

These equity investments in renewable energy projects are accounted for under the equity method of accounting. Certain of our equity method investments were determined to be VIEs in which we are not the primary beneficiary, as we do not direct the significant activities of those entities in which we invest. Our maximum exposure to loss associated with the continued operation of the underlying projects in our equity method investments is limited to our recorded value of our investments. Under the equity method of accounting, the carrying value of these equity method investments is determined based on amounts we invested, adjusted for the equity in earnings or losses of the investee allocated based on the LLC agreement, less distributions received. Because certain of the LLC agreements contain preferences with regard to cash flows from operations, capital events and liquidation, we reflect our share of profits and losses by determining the difference between our claim on the investee’s book value at the beginning and the end of the period, which is adjusted for distributions received and contributions made. This claim is calculated as the amount we would receive (or be obligated to pay) if the investee were to liquidate all of its assets at recorded amounts determined in accordance with GAAP and distribute the resulting cash to creditors and investors in accordance with their respective priorities. This method is commonly referred to as the hypothetical liquidation at book value method or (“HLBV”). Any difference between the amount of our investment and the amount of underlying equity in net assets is generally amortized over the life of the assets and liabilities to which the difference relates. Intercompany gains and losses are eliminated for an amount equal to our interest and are reflected in our share of income or loss from equity method investments in the consolidated statements of operations. Cash distributions received from our equity method investments are classified as operating activities to the extent of cumulative HLBV earnings in our consolidated statements of cash flows. Our initial investment and additional cash distributions beyond that which is classified as operating activities are classified as investing activities in our consolidated statements of cash flows. We have elected to recognize earnings from these investments one quarter in arrears to allow for the receipt of financial information. We have also made an investment in a joint venture which holds land under solar projects that we have determined to be a voting interest entity. This investment entitles us to receive an equal percentage of both cash distributions and profit and loss under the terms of the LLC operating agreement. The investment is accounted for under the equity

method of accounting with our portion of income being recognized in income (loss) from equity method investments in the period in which the income is earned.

We evaluate on a quarterly basis whether our investments accounted for using the equity method have an other than temporary impairment (“OTTI”). An OTTI occurs when the estimated fair value of an investment is below the carrying value and the difference is determined to not be recoverable. This evaluation requires significant judgment regarding, but not limited to, the severity and duration of the impairment; the ability and intent to hold the securities until recovery; financial condition, liquidity, and near-term prospects of the issuer; specific events; and other factors.

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### Government and Commercial Receivables

Government and commercial receivables (“receivables”), include energy efficiency and renewable energy project loans and receivables. These receivables are separately presented in our balance sheet to illustrate the differing nature of the credit risk related to these assets. Unless otherwise noted, we generally have the ability and intent to hold our receivables for the foreseeable future and thus they are classified as held for investment. Our ability and intent to hold certain receivables may change from time to time depending on a number of factors, including economic, liquidity and capital market conditions. At inception of the arrangement, the carrying value of receivables held for investment represents the present value of the note, lease or other payments, net of any unearned fee income, which is recognized as income over the term of the note or lease using the effective interest method. Receivables that are held for investment are carried, unless deemed impaired, at amortized cost, net of any unamortized acquisition premiums or discounts and include origination and acquisition costs, as applicable. Our initial investment and principal repayments of these receivables are classified as investing activities and the interest collected is classified as operating activities in our consolidated statements of cash flows. Receivables that we intend to sell in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value on our balance sheet. The net purchases and proceeds from receivables that we intend to sell at origination are classified as operating activities in our consolidated statements of cash flows, otherwise the net purchases and proceeds are classified as investing activities. Interest collected is classified as an operating activity in our consolidated statements of cash flows. We may secure debt with the proceeds from our receivables.

We evaluate our receivables for potential delinquency or impairment on at least a quarterly basis and more frequently when economic or other conditions warrant such an evaluation. When a receivable becomes 90 days or more past due, and if we otherwise do not expect the debtor to be able to service all of its debt or other obligations, we will generally consider the receivable delinquent or impaired and place the receivable on non-accrual status and cease recognizing income from that receivable until the borrower has demonstrated the ability and intent to pay contractual amounts due. If a receivable’s status significantly improves regarding the debtor’s ability to service the debt or other obligations, we will remove it from non-accrual status.

A receivable is also considered impaired as of the date when, based on current information and events, it is determined that it is probable that we will be unable to collect all amounts due in accordance with the original contracted terms. Many of our receivables are secured by energy efficiency and renewable energy infrastructure projects. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and value of the underlying project, as well as the financial and operating capability of the borrower, its sponsors or the obligor as well as any guarantors. We consider a number of qualitative and quantitative factors in our assessment, including, as appropriate, a project’s operating results, loan-to-value ratio, any cash reserves, the ability of expected cash from operations to cover the cash flow requirements currently and into the future, key terms of the transaction, the ability of the borrower to refinance the transaction, other credit support from the sponsor or guarantor and the project’s collateral value. In addition, we consider the overall economic environment, the sustainable infrastructure sector, the effect of local, industry, and broader economic factors, the impact of any variation in weather and the historical and anticipated trends in interest rates, defaults and loss severities for similar transactions.

If a receivable is considered to be impaired, we will determine if an allowance should be recorded. We will record an allowance if the present value of expected future cash flows discounted at the receivable’s contractual effective rate is less than its carrying value. This estimate of cash flows may include the currently estimated fair market value of the collateral less estimated selling costs if repayment is expected solely from the collateral. We charge off receivables against the allowance, if any, when we determine the unpaid principal balance is uncollectible, net of recovered amounts.

### Real Estate

Real estate consists of land or other real estate and its related lease intangibles, net of any amortization. Our real estate is generally leased to tenants on a triple net lease basis, whereby the tenant is responsible for all operating expenses relating to the property, generally including property taxes, insurance, maintenance, repairs and capital expenditures. Scheduled rental revenue typically varies during the lease term and thus rental income is recognized on a straight-line basis, unless there is considerable risk as to collectability, so as to produce a constant periodic rent over the term of the

lease. Accrued rental income is the aggregate difference between the scheduled rents which vary during the lease term and the income recognized on a straight-line basis and is recorded in other assets. Expenses, if any, related to leases where we are the lessor, are charged to operations as incurred. Our initial investment is classified as investing activities and income collected for rental income is classified as operating activities in our consolidated statements of cash flows.

We typically record our real estate purchases as asset acquisitions that are recorded at cost, including acquisition and closing costs. When we record our real estate purchases as asset acquisitions we allocate our cost to each tangible and intangible asset acquired on a relative fair value basis.

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The fair value of the tangible assets of an acquired leased property is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land, building and tenant improvements, if any, based on the determination of the fair values of these assets. The as-if-vacant fair value of a property is typically determined by management based on appraisals by a qualified appraiser. In determining the fair value of the identified intangibles of an acquired property, above-market and below-market in-place lease values are valued based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases, and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease, including renewal periods likely of being exercised by the lessee.

The capitalized above-market lease values are amortized as a reduction of rental income and the capitalized below-market lease values are amortized as an increase to rental income, both of which are amortized over the term used to value the intangible. We also record, as appropriate, an intangible asset for in-place leases. The value of the leases in place at the time of the transaction is equal to the potential income lost if the leases were not in place. The amortization of this intangible occurs over the initial term unless management believes that it is likely that the tenant would exercise the renewal option, in which case the amortization would extend through the renewal period. If a lease were to be terminated, all unamortized amounts relating to that lease would be written off.

#### Investments

Investments are debt securities that meet the criteria of ASC 320, Investments-Debt and Equity Securities. We have designated our debt securities as available-for-sale and carry these securities at fair value on our balance sheet.

Unrealized gains and losses, to the extent not considered to have an OTTI, on available-for-sale debt securities are recorded as a component of accumulated other comprehensive income (“AOCI”) in equity on our balance sheet. Our initial investment and principal repayments of these investments are classified as investing activities and the interest collected is classified as operating activities in our consolidated statements of cash flows.

We evaluate our investments for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we regularly evaluate the extent and impact of any credit deterioration associated with the financial and operating performance and value of the underlying project. We consider a number of qualitative and quantitative factors in our assessment. We first consider the current fair value of the security and the duration of any unrealized loss. Other factors considered include changes in the credit rating, performance of the underlying project, key terms of the transaction, the value of any collateral and any support provided by the sponsor or guarantor.

To the extent that we have identified an OTTI for a security and intend to hold the investment to maturity and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of the OTTI in earnings. We determine the credit component using the difference between the security’s amortized cost basis and the present value of its expected future cash flows, discounted using the effective interest method or its estimated collateral value. Any remaining unrealized loss due to factors other than credit is recorded in AOCI.

To the extent we hold investments with an OTTI and if we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings.

Premiums or discounts on investment securities are amortized or accreted into interest income using the effective interest method.

#### Securitization of Receivables

We have established various special purpose entities or securitization trusts for the purpose of securitizing certain receivables or investments. We determined that the trusts used in securitizations are VIEs, as defined in ASC 810. We typically serve as primary or master servicer of these trusts; however, as the servicer, we do not have the power to make significant decisions impacting the performance of the trusts. Based on an analysis of the structure of the trusts, we have concluded that we are not the primary beneficiary of the trusts as we do not have power over the trusts’ significant activities. Therefore, we do not consolidate these trusts in our consolidated financial statements.

We account for transfers of receivables or investments to these securitization trusts as sales pursuant to ASC 860, Transfers and Servicing, when we have concluded the transferred receivables have been isolated from the transferor (i.e., put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership) and we have surrendered control over the transferred receivables. We have received true-sale-at-law opinions for all of our securitization trust structures and non-consolidation legal opinions for all but one legacy securitization trust structure that support our conclusion regarding the transferred receivables. When we sell receivables in securitizations, we generally retain interests in the form of servicing rights and residual assets, which we refer to as securitization assets.

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Gain or loss on the sale of receivables is calculated based on the excess of the proceeds received from the securitization (less any transaction costs) plus any retained interests obtained over the cost basis of the receivables sold. For retained interests, we generally estimate fair value based on the present value of future expected cash flows using our best estimates of the key assumptions of anticipated losses, prepayment rates, and current market discount rates commensurate with the risks involved. Cash flows related to our securitizations at origination are classified as operating activities in our consolidated statements of cash flows.

We initially account for all separately recognized servicing assets and servicing liabilities at fair value and subsequently measure such servicing assets and liabilities using the amortization method. Servicing assets and liabilities are amortized in proportion to, and over the period of, estimated net servicing income with servicing income recognized as earned. We assess servicing assets for impairment at each reporting date. If the amortized cost of servicing assets is greater than the estimated fair value, we will recognize an impairment in net income.

Our other retained interest in securitized assets, the residual assets, are accounted for as available-for-sale securities and carried at fair value on the consolidated balance sheets in other assets. We generally do not sell our residual assets. Our residual assets are evaluated for impairment on a quarterly basis. Interest income related to the residual assets is recognized using the effective interest rate method. If there is a change in the expected cash flows related to the residual assets, we calculate a new yield based on the current amortized cost of the residual assets and the revised expected cash flows. This yield is used prospectively to recognize interest income.

#### Cash and Cash Equivalents

Cash and cash equivalents include short-term government securities, certificates of deposit and money market funds, all of which had an original maturity of three months or less at the date of purchase. These securities are carried at their purchase price, which approximates fair value.

#### Restricted Cash

Restricted cash includes cash and cash equivalents set aside with certain lenders primarily to support deferred funding and other obligations outstanding as of the balance sheet dates. Restricted cash is reported as part of other assets in the consolidated balance sheets. Refer to Note 3 for disclosure of the balances of restricted cash included in other assets.

#### Convertible Notes

We have issued convertible senior notes that are accounted for in accordance with ASC 470-20, Debt with Conversion and Other Options, and ASC 815, Derivatives and Hedging ("ASC 815"). Under ASC 815, issuers of certain convertible debt instruments are generally required to separately account for the conversion option of the convertible debt instrument as either a derivative or equity, unless it meets the scope exemption for contracts indexed to, and settled in, an issuer's own equity. Since this conversion option is both indexed to our equity and can only be settled in our common stock, we have met the scope exemption, and therefore, we are not separately accounting for the embedded conversion option. The initial issuance and any principal repayments are classified as financing activities and interest payments are classified as operating activities in our consolidated statements of cash flows.

#### Derivative Financial Instruments

We utilize derivative financial instruments, primarily interest rate swaps, to manage, or hedge, our interest rate risk exposures associated with new debt issuances, to manage our exposure to fluctuations in interest rates on variable rate debt, and to optimize the mix of our fixed and floating-rate debt. In addition, we use forward-starting interest rate swap contracts to manage a portion of our interest rate exposure for anticipated refinancing of our long-term debts. Our objective is to reduce the impact of changes in interest rates on our results of operations and cash flows. The fair values of our interest rate swaps designated and qualifying as effective cash flow hedges are reflected in our consolidated balance sheets as a component of other assets (if in an unrealized asset position) or accounts payable, accrued expenses and other (if in an unrealized liability position) and in net unrealized gains and losses in AOCI. The cash settlements of our interest rate swaps are classified as operating activities in our consolidated statements of cash flows.

The interest rate swaps we use are designated as cash flow hedges and are considered highly effective in reducing our exposure to the interest rate risk that they are designated to hedge. This effectiveness is required in order to qualify for hedge accounting. Instruments that meet the required hedging criteria are formally designated as hedges at the inception of the derivative contract. Derivatives are recorded at fair value. If a derivative is designated as a cash flow

hedge and meets the highly effective threshold, the change in the fair value of the derivative is recorded in AOCI, net of associated deferred income tax effects and is recognized in earnings at the same time as the hedged item, including as a result of the accrual of interest. For any derivative instruments not designated as hedging instruments, changes in fair value would be recognized in earnings in the period that the change occurs. We assess, both at the inception of the hedge and on an ongoing basis, whether the derivatives

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designated as cash flow hedges are highly effective in offsetting the changes in cash flows of the hedged items. We do not hold derivatives for trading purposes.

Interest rate swap contracts contain a credit risk that counterparties may be unable to fulfill the terms of the agreement. We attempt to minimize that risk by evaluating the creditworthiness of our counterparties, who are limited to major banks and financial institutions, and do not anticipate nonperformance by the counterparties.

#### Income Taxes

We elected and qualified to be taxed as a REIT for U.S. federal income tax purposes, commencing with our taxable year ended December 31, 2013. To qualify as a REIT, we must meet on an ongoing basis a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our net taxable income, excluding capital gains, to our stockholders. As a REIT, we are not subject to U.S. federal corporate income tax on that portion of net income that is currently distributed to our owners. However, our taxable REIT subsidiaries ("TRSs") will generally be subject to U.S. federal, state, and local income taxes as well as taxes of foreign jurisdictions, if any.

We account for income taxes under ASC 740, Income Taxes ("ASC 740") for our TRSs using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. We evaluate any deferred tax assets for valuation allowances based on an assessment of available evidence including sources of taxable income, prior years taxable income, any existing taxable temporary differences and our future investment and business plans that may give rise to taxable income.

We apply ASC 740 with respect to how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. This guidance requires the accounting and disclosure of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are "more likely than not" to be sustained by the applicable tax authority. We are required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes U.S. federal and certain states.

#### Equity-Based Compensation

In 2013, we adopted our equity incentive plan (the "2013 Plan"), which provides for grants of stock options, stock appreciation rights, restricted stock units, shares of restricted common stock, phantom shares, dividend equivalent rights, long-term incentive-plan units ("LTIP units") and other restricted limited partnership units issued by our Operating Partnership and other equity-based awards. From time to time, we may make equity or equity based awards as compensation to members of our senior management team, our independent directors, employees, advisors, consultants and other personnel under our 2013 Plan. Certain awards earned under the plan are based on achieving various performance targets, which are generally earned between 0% and 200% of the initial target, depending on the extent to which the performance target is met.

We record compensation expense for grants made under the 2013 Plan in accordance with ASC 718, Compensation-Stock Compensation. We record compensation expense for unvested grants that vest solely based on service conditions on a straight-line basis over the vesting period of the entire award based upon the fair market value of the grant on the date of grant. Fair market value for restricted common stock is based on our share price on the date of grant. For awards where the vesting is contingent upon achievement of certain performance targets, compensation expense is measured based on the fair market value on the grant date and is recorded over the requisite service period (which includes the performance period). Actual performance results at the end of the performance period determines the number of shares that will ultimately be awarded. We have also issued restricted stock units where the vesting is contingent upon service being provided for a defined period and certain market conditions being met. The fair value of these awards, as measured at the grant date, is recognized over the requisite service period, even if the market conditions are not met. The grant date fair value of these awards was developed by an independent appraiser using a Monte Carlo simulation.

#### Earnings Per Share

We compute earnings per share of common stock in accordance with ASC 260, Earnings Per Share. Basic earnings per share is calculated by dividing net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested grants under the 2013 Plan, if applicable) by the weighted-average number of shares of common stock outstanding during the period excluding the weighted average number of unvested grants under the 2013 Plan, if applicable (“participating securities” as defined in Note 12). Diluted earnings per share is calculated by dividing net income attributable to controlling stockholders (after consideration of the earnings allocated to unvested grants under the 2013 Plan, if applicable) by the weighted-average number of shares of common stock outstanding during the period plus other potential common stock instruments if they are dilutive. Other potentially dilutive common stock instruments include our unvested restricted stock, restricted stock units and convertible notes. The restricted stock and restricted stock units are included if they are dilutive using

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the treasury stock method. The treasury stock method assumes that theoretical proceeds received for future service provided is used to purchase treasury stock at our stock's average market price, which is deducted from the amount of stock included in the calculation. When unvested grants are dilutive, the earnings allocated to these dilutive unvested grants are not deducted from the net income attributable to controlling stockholders when calculating diluted earnings per share. The convertible notes are included if they are dilutive using the if-converted method. The if-converted method removes interest expense related to the convertible notes from the net income attributable to controlling stockholders and includes the weighted average shares over the period issuable upon conversion of the note. No adjustment is made for shares that are anti-dilutive during a period.

#### Segment Reporting

We make equity and debt investments for sustainable infrastructure projects. We manage our business as a single portfolio and report all of our activities as one business segment.

#### Recently Issued Accounting Pronouncements

##### Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in GAAP and permits the use of either the retrospective or modified retrospective transition method. We have adopted ASU 2014-09 effective January 1, 2018, and have elected the modified retrospective transition method. The adoption of ASU 2014-09 did not have a material impact on our consolidated financial statements and related disclosures as the majority of our sources of revenue, e.g., investments in receivables, debt and equity securities, land leasing, and the securitization of receivables are not within the scope of the new standard.

##### Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, an identified asset for the lease term. Changes were made to align lessor accounting with the lessee accounting model and ASU No. 2014-09, Revenue from Contracts with Customers. The ASU will be effective for us beginning January 1, 2019. Early application is permitted for all public business entities at any time. As of the date of this filing, lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, and may apply certain practical expedients to transition. If elected, these practical expedients would allow us to continue to use our previous lease classification conclusions and continue to classify the leases that exist at the date of adoption based on their pre-existing classification. However, there are certain proposed changes being considered that may allow for a cumulative adjustment recorded in the year of adoption in lieu of restating prior periods for the impact of the new guidance. The changes in guidance could result in a different accounting treatment for certain of our operating leases as lessors of real estate. We are currently evaluating the impact the adoption of this ASU will have on our consolidated financial statements and related disclosures.

##### Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses—Measurement of Credit Losses on Financial Instruments (Topic 326). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the "incurred loss" approach under existing guidance with an "expected loss" model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the amortized cost, as currently required. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We are currently evaluating the impact the adoption of ASU 2016-13 will have on our consolidated financial statements and related disclosures.

Other accounting standards updates issued before May 4, 2018 and effective after March 31, 2018 are not expected to have a material effect on our consolidated financial statements and related disclosures.

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### 3. Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value accounting guidance provides a three-level hierarchy for classifying financial instruments. The levels of inputs used to determine the fair value of our financial assets and liabilities carried on the balance sheet at fair value and for those which only disclosure of fair value is required are characterized in accordance with the fair value hierarchy established by ASC 820, Fair Value Measurements. Where inputs for a financial asset or liability fall in more than one level in the fair value hierarchy, the financial asset or liability is classified in its entirety based on the lowest level input that is significant to the fair value measurement of that financial asset or liability. We use our judgment and consider factors specific to the financial assets and liabilities in determining the significance of an input to the fair value measurements. As of March 31, 2018 and December 31, 2017, only our residual assets, interest rate swaps and investments, if any, were carried at fair value on the consolidated balance sheets on a recurring basis. The three levels of the fair value hierarchy are described below:

- Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date.
- Level 2 — Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3 — Unobservable inputs are used when little or no market data is available.

The tables below illustrate the estimated fair value of our financial instruments on our balance sheet. Unless otherwise discussed below, fair value for our Level 2 and Level 3 measurements is measured using a discounted cash flow model, contractual terms and inputs which consist of base interest rates and spreads over base rates which are based upon market observation and recent comparable transactions. An increase in these inputs would result in a lower fair value and a decline would result in a higher fair value. Our convertible notes are valued using a market based approach and observable prices. The receivables held-for-sale, if any, are carried at the lower of cost or fair value.

	As of March 31, 2018		
	Fair Value	Carrying Value	Level
	(in millions)		
<b>Assets</b>			
Government receivables	\$497	\$ 514	Level 3
Commercial receivables	452	471	Level 3
Receivables held-for-sale	16	16	Level 3
Investments <sup>(1)</sup>	152	152	Level 3
Securitization residual assets <sup>(2)</sup>	53	53	Level 3
Derivative assets	6	6	Level 2
<b>Liabilities</b>			
Credit facility	\$70	\$ 70	Level 3
Non-recourse debt <sup>(3)</sup>	1,225	1,241	Level 3
Convertible notes <sup>(3)</sup>	144	151	Level 2

(1)The amortized cost of our investments as of March 31, 2018 was \$157 million.

(2)Included in other assets on the consolidated balance sheet.

(3)Fair value and carrying value excludes unamortized debt issuance costs.

	As of December 31, 2017		
	Fair Value	Carrying Value	Level
	(in millions)		
<b>Assets</b>			
Government receivables	\$519	\$ 519	Level 3
Commercial receivables	464	473	Level 3
Receivables held-for-sale	20	19	Level 3
Investments <sup>(1)</sup>	151	151	Level 3
Securitization residual assets <sup>(2)</sup>	45	45	Level 3
<b>Liabilities</b>			
Credit facility	\$70	\$ 70	Level 3
Non-recourse debt <sup>(3)</sup>	1,239	1,238	Level 3
Convertible notes <sup>(3)</sup>	156	152	Level 2

(1)The amortized cost of our investments as of December 31, 2017 was \$153 million.

(2)Included in other assets on the consolidated balance sheet.

(3)Fair value and carrying value excludes unamortized debt issuance costs.

#### Investments

The following table reconciles the beginning and ending balances for our Level 3 investments that are carried at fair value on a recurring basis:

	For the three months ended March 31, 2018 2017 (in millions)	
Balance, beginning of period	\$151	\$58
Purchases of investments	4	66
Unrealized gains (losses) on investments recorded in AOCI	(3)	1
Balance, end of period	\$152	\$125

The following table illustrates our investments in an unrealized loss position:

	Estimated Fair Value		Unrealized Losses <sup>(1)</sup>	
	with Securities	with Securities	with Securities	with Securities
	a with a	a with a	a with a	a with a
	loss loss	loss loss	loss loss	loss loss
	shorter	longer	shorter	longer
	than 12	than 12	than 12	than 12
	months	months	months	months
	months	months	months	months
	(in millions)			
March 31, 2018	103	44	2	3
December 31, 2017	26	46	1	2

(1) Loss position is due to interest rates movements. We have the intent and ability to hold these investments until a recovery of fair value.

In determining the fair value of our investments, we used a range of interest rate spreads of approximately 1% to 4% based upon comparable transactions as of March 31, 2018 and December 31, 2017.

#### Interest Rate Swap Agreements

The fair values of the derivative financial instruments are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. We have determined that the significant inputs, such as interest yield curves and discount rates, used to value our derivatives fall within Level 2 of the fair value hierarchy and that the credit valuation adjustments associated with our counterparties and our own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of our or our counterparties default. As of March 31, 2018 and December 31, 2017, we assessed the significance of the impact of the credit valuation adjustments on the

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overall valuation of our derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of our derivatives. As a result, we determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The fair values of the derivative financial instruments are included in other assets (if in an unrealized gain position) or accounts payable, accrued expenses and other (if in an unrealized loss position) in the consolidated balance sheets.

#### Non-recurring Fair Value Measurements

Our financial statements may include non-recurring fair value measurements related to acquisitions and non-monetary transactions, if any. Assets acquired in a business combination are recorded at their fair value. We may use third party valuation firms to assist us with developing our estimates of fair value.

#### Concentration of Credit Risk

Government and commercial receivables, investments and leases consist primarily of U.S. federal government-backed receivables, investment grade state and local government receivables and receivables from various sustainable infrastructure projects and do not, in our view, represent a significant concentration of credit risk. See Note 6 for an analysis by type of obligor and the method for rating. As described above, we do not believe we have a significant credit exposure to our interest rate swap providers. We had cash deposits that are subject to credit risk as shown below:

	March 31, 2018	December 31, 2017
	(in millions)	
Cash deposits	\$47	\$ 57
Restricted cash deposits (included in other assets)	70	61
Total cash deposits	\$117	\$ 118
Amount of cash deposits in excess of amounts federally insured	\$114	\$ 116

#### 4. Non-Controlling Interest

Units of limited partnership interests in the Operating Partnership (“OP units”) that are owned by limited partners other than us are included in non-controlling interest on our consolidated balance sheets. The outstanding OP units held by outside limited partners represent less than 1% of our outstanding OP units and are redeemable by the limited partners for cash, or at our option, for a like number of shares of our common stock. We exchanged 3,703 OP units held by our non-controlling interest holders for the same number of shares of our common stock during the three months ended March 31, 2018. No OP units were exchanged for either cash or shares of our common stock during the three months ended March 31, 2017. The non-controlling interest holders are generally allocated their pro rata share of income, other comprehensive income and equity transactions.

#### 5. Securitization of Receivables

The following summarizes certain transactions with our securitization trusts:

	As of and for the three months ended March 31,	
	2018	2017
	(in millions)	
Gains on securitizations	\$ 6	\$ 4
Purchase of receivables securitized	129	87
Proceeds from securitizations	135	91
Residual and servicing assets included in other assets	53	22
Cash received from residual and servicing assets	1	2

In connection with securitization transactions, we typically retain servicing responsibilities and residual assets. In certain instances, we receive annual servicing fees of up to 0.20% of the outstanding balance. We may periodically

make servicer advances, which are subject to credit risk. Included in other assets in our consolidated balance sheets are our servicing assets at amortized cost, our residual assets at fair value, and our servicing advances at cost, if any. Our residual assets are subordinate to investors' interests, and their values are subject to credit, prepayment and interest rate risks on the transferred financial assets. The investors and the securitization trusts have no recourse to our other assets for failure of debtors to pay when due. In computing gains and losses on securitizations, we use the same discount rates we use for the fair value calculation

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of residual assets, which are determined based on a review of comparable market transactions including Level 3 unobservable inputs which consist of base interest rates and spreads over base rates. Depending on the nature of the transaction risks, the discount rate ranged from 4% to 7%.

As of March 31, 2018 and December 31, 2017, our managed assets totaled \$4.8 billion and \$4.7 billion, respectively, of which \$2.8 billion and \$2.7 billion, respectively, were securitized assets held in unconsolidated securitization trusts. There were no securitization credit losses in the three months ended March 31, 2018 or 2017. As of March 31, 2018, there was approximately \$1.4 million in payments from certain debtors to the securitization trusts that was greater than 90 days past due. The securitized assets consist of receivables from contracts for the installation of energy efficiency and other technologies in facilities owned by, or operated for or by, federal, state or local government entities where the ultimate obligor is the government. The contracts may have guarantees of energy savings from third party service providers, which typically are entities rated investment grade by an independent rating agency. Based on the nature of the receivables and experience-to-date, we do not currently expect to incur any credit losses of our residual interests related to the receivables sold.

#### 6. Our Portfolio

As of March 31, 2018, our Portfolio included approximately \$2.0 billion of equity method investments, receivables, real estate and investments on our balance sheet. The equity method investments represent our non-controlling equity investments in renewable energy projects and land. The receivables and investments are typically collateralized by contractually committed debt obligations of government entities or private high credit quality obligors and are often supported by additional forms of credit enhancement, including security interests and supplier guaranties. The real estate is typically land and related lease intangibles for long-term leases to wind and solar projects.

The following is an analysis of our Portfolio as of March 31, 2018:

Investment Grade	Commercial Non-Investment Grade (3)	Subtotal, Debt and Real Estate	Equity Method Investments	Total
Commercial Grade (2)	Government Grade (1)			
(dollars in millions)				
Equit				