

# TIPTREE FINANCIAL INC.

May 2, 2014

To Our Fellow Investors:

We are pleased to provide this annual letter to investors, the first since completing the business combination to form Tiptree Operating Company, LLC (“Operating Company”). Approximately 25% of Operating Company is owned by Tiptree Financial Inc. (“Tiptree”), whose outstanding shares are listed on the NASDAQ under the ticker “TIPT”. The remaining 75% of Operating Company is owned by Tiptree Financial Partners LP (“TFP”). For more detail regarding the ownership of Operating Company, please see the diagram of our current organizational structure on page 9 of the attached Form 10-K.

As of December 31, 2013, Operating Company had an economic book value of \$432.6 million. Operating Company’s 2013 economic net income was \$34.7 million. The economic book value per fully diluted share was \$10.42 at year-end 2013 compared to \$9.50 at year-end 2012, reflecting an increase of approximately 9.7%. Operating Company’s GAAP book value as of December 31, 2013 was \$454.9 million and GAAP net income was \$34.8 million for 2013. For a reconciliation of economic net income and economic book value to our reported GAAP results, see “— Economic Net Income and Economic Book Value” beginning on page 29 of the attached Form 10-K.

Although Tiptree’s returns for 2013 fell short of the extraordinary performance of major equity indices, we were pleased with our results, particularly given the large cash balances the Company held throughout the year. 2013 represented a year of positive transition, and there were a number of noteworthy accomplishments:

- In the second half of 2013, we completed the combination transaction described above and listed the shares of Tiptree on the NASDAQ.
- We made a control investment in Siena Lending Group, an asset-based specialty finance business focused on lending to small and medium sized U.S. companies.
- We made our first investment in Luxury Mortgage Corp., a specialty finance business focused on the origination and sale of agency, prime jumbo and super jumbo mortgages.
- Telos Asset Management completed 2 CLOs and began ramping a third, adding more than \$700 million to assets under management.
- Care sold properties valued at more than \$125 million, resulting in a net gain of approximately \$15.5 million, and made new healthcare related investments of more than \$98 million.
- We also placed Operating Company’s first debt facility of \$175 million. At this time, \$125 million of borrowing capacity remains available to support our growth and investment strategies.

## **Overview of Business Strategy**

Before we get to the specifics of operations and the performance of our businesses, we thought it might be helpful to provide an overview of Tiptree’s business strategy, summarize its competitive advantages, and review the policies and principles which guide our operations:

- Tiptree is a diversified holding company that primarily invests in control interests of operating businesses; currently we have six, each of which is generally described in the following pages and with greater detail in the attached Form 10-K. We will also make minority investments if we see unique opportunities, typically with the expectation of shorter holding periods.

- We strive to identify businesses that: (i) have strong and experienced management, (ii) are currently profitable, ideally providing distributable income, and (iii) have sustainable and scalable business models.
- Very often our best investments are those which are being sold in a stressed economic environment or by a distressed seller who needs cash quickly. Our significant cash balances and available credit enable us to move with speed and confidence and provides a significant competitive advantage to our peers.
- When we make acquisitions, we usually do so with a commitment to partner with a company's management and employees. In this role as partner, we strive to be predictable and provide assistance when needed, but generally rely on the expertise of management to run the business day-to-day.
- Tiptree's permanent capital base allows us to view our investments through a long-term lens, providing competitive advantages to alternative capital sources such as private equity funds. We follow the simple rule that we will own a business until (i) another party values it greater than us, and (ii) we believe that net after-tax proceeds can be successfully invested in new opportunities with similar or greater returns. As long as a business is performing, we are happy to hold.
- It is a priority of management to identify investments that will provide stable and attractive returns on capital, but this priority is second to preserving capital. We will always seek to take precautionary steps to avoid or limit losses, and we will never "bet the farm" on any single investment or strategy.
- We avoid investments that may in any way damage the reputation of Tiptree. We take seriously the adage that "it takes a lifetime to build a good reputation and a second to destroy one."
- We seek to maintain a prudent capital structure. When we do use debt, at the Operating Company or our subsidiary level, we take great care in structuring the debt to protect our equity capital from sudden event risk. We prioritize debt that is matched to the terms of the assets that serve as collateral, limited in recourse to the assets financed and try to limit or avoid any requirement of posting margin based on mark to market changes in collateral values. Debt can be a useful tool to help fuel growth, but we've operated through enough credit cycles to recognize that debt can also lead to exaggerated and speedy losses in periods of stress.
- Our investors are our partners, and we attempt to provide as much information and transparency as we would expect to see when making an investment ourselves; we believe a well educated and informed investor makes the best partner.

### **Dividend Policy**

One of management's current objectives is to grow Tiptree, as we believe this will better provide liquidity to investors, improve the price at which our public shares trade, and make our shares more valuable as a "currency" when structuring acquisitions. As a growing company, we have a continual need for capital to provide ongoing support to our subsidiaries and to make future acquisitions. For the fourth quarter of 2013, Tiptree's board considered many factors including estimated corporate tax obligations as well as Tiptree's near-term cash needs, and concluded no dividend would be paid. Each quarter, a similar consideration will be made.

### **Economic Book Value and Income vs. GAAP**

You will note that we will tend to refer to "Economic" results alongside the more traditional (and required) GAAP reporting. We often find that GAAP does not present Tiptree's financials as transparently as we would like. Economic reporting is management's effort to cut through the confusion created by GAAP reporting and attempt to present fair, current market values and actual earned and unrealized income that reflect the nature and substance of the economic results of Tiptree's businesses. Economic results are also the metrics by which the performance of senior management is measured for purposes of determining compensation. Therefore, investors should anticipate that economic results will be management's primary focus going forward since management believes it is the more accurate scorecard of performance.

## **Summary of Results for Tiptree's Primary Areas of Focus:**

***Insurance and insurance services:*** Philadelphia Financial Group ("PFG") posted positive operating profit of \$14.0 million for 2013, enjoying both modest organic growth and increased cash flow from its insurance administration business. With U.S. personal tax rates having moved higher and equity markets having materially rebounded from their lows, we believe PFG is well positioned to meet the needs of its wealthy constituents by providing life and annuity policies for tax and estate planning. CEO John Hillman has run PFG since founding it in 1996 and we believe he is one of the most knowledgeable individuals in the private placement life insurance business. In addition to organic growth, PFG's management remains focused on complementary acquisition opportunities.

### **Specialty Finance:**

***MFCA:*** Muni Funding Company of America ("MFCA") is a specialty finance company that provides credit to middle market tax-exempt borrowers primarily operating in the areas of healthcare, education and social services. MFCA's holdings of tax-exempt debt performed well in 2013, posting positive returns based on market value appreciation and income received. The low interest rate environment of these past few years has allowed some of MFCA's borrowers to refinance at historically low levels. We anticipate this trend of refinancing will continue with regard to MFCA's remaining portfolio and Chris Conley, who directs MFCA's investments, and his team has turned their focus on redeploying existing capital toward new investments which we believe will offer attractive, tax-exempt, risk-adjusted returns.

***Siena:*** In April 2013, Tiptree made its initial investment toward a control interest in Siena Lending Group ("Siena"), a commercial finance company providing credit to small and medium sized U.S. companies. The investment in Siena was unique for us, as it was effectively a start-up, something we generally shy away from. However, after conducting extensive due diligence on the asset-based lending sector, as well as on the management group who would be guiding Siena, we were sold on the prospects of building a world class, scalable specialty finance business. David Grende, President and CEO of Siena, is a highly qualified manager with more than 30 years in his industry. We have been impressed at the progress David has made to date in developing Siena's platform. We expect that Siena will continue its growth in 2014 and contribute positively to Tiptree's returns.

***Luxury Mortgage:*** Tiptree completed the acquisition of 67.5% of Luxury Mortgage Corp. ("Luxury") in January 2014, having made its first investment in mid 2013. Luxury's operations include the origination, packaging and sale of agency, prime jumbo and super jumbo mortgage loans. The rise in interest rates toward the latter half of 2013 materially reduced the number of mortgage applications, particularly for those seeking to refinance existing loans. Nonetheless, we believe Luxury has material growth potential. The U.S. mortgage market is one of the largest debt markets in the world, and the change in rates and regulation has ushered in a new era of uncertainty for many mortgage originators. Separately, there are significant changes taking place with regard to the role the government will play in regulating and guaranteeing mortgages going forward. New regulations have more clearly defined (and constrained) how banks will originate and hold mortgages ("Qualified Mortgage Rules"); in addition, recent proposals in congress seek to reduce or eliminate the role of Fannie Mae and Freddie Mac in guaranteeing mortgages. These actions have initiated what will likely be an extensive period of unprecedented change and opportunity. More positively, it appears that growth may be taking hold in the overall U.S. economy; also positive are the early signs of progress toward the return of private-label mortgage securitizations. We believe Tiptree is well positioned to partner with Luxury to grow its business. Luxury has been around since 1996, and David Adamo and Rob Grosser, Luxury's CEO and President, demonstrated great discipline and skill by successfully maneuvering through the worst credit crisis in recent history.

**Asset Management:** Our wholly owned subsidiary, Tiptree Asset Management Company (“TAMCO”) enjoyed positive growth in 2013 and produced results that exceeded expectations. In particular, our corporate credit investment management business, Telos Asset Management, (“Telos”), added more than \$700 million of new assets under management by closing 2 new CLOs. We closed our most recent CLO on May 1, 2014 and expect to begin assembling the portfolio for our next CLO soon. Telos is led by John McCormick, a veteran investor in corporate credit. We believe the performance of Telos managed funds over these last six years has been among the best in their industry. We expect that as the global economic recovery process continues, John and his team will play an important role by providing credit to corporate borrowers, an essential ingredient to the continued growth of the U.S. economy.

**Real Estate:** When we acquired a control interest in Care Investment Trust Inc. (“Care”) back in 2010, CEO Torey Riso communicated to us a clear objective: to pursue partnerships with smaller, high quality healthcare property managers/operators who are primarily focusing on servicing independent living, assisted living and skilled nursing facilities. The strategy is simple: we invest our capital to own the real estate and then lease the properties to our partners, the managers/operators, confident that they will provide good care to the tenants. At times we will also take a small ownership interest in operations and allow our manager/operators to similarly make small investments in the real estate; the result is a clear alignment of interests and the potential for Care to participate in operating profitability. With positive demographics of an aging nation, and attractive property financing rates, we see this investment strategy providing stable current returns and being well positioned for any inflationary tail-winds that may arise. We are excited about growing this business in the coming years.

#### **Redemption of TFP Units for Tiptree Shares**

Beginning July 1, 2014 and each month thereafter, TFP limited partners may redeem some or all of their partnership units for Class A common stock. The terms of the redemption are set forth in a Redemption Election Notice being sent to TFP investors on May 2, 2014. The redemption rate will be one partnership unit for each 2.798 shares of Class A common stock received.

We are pleased with Tiptree’s 2013 results and excited about Tiptree’s future.

With best regards,

Geoffrey Kauffman  
President & CEO

Michael Barnes  
Executive Chairman