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Michael Gene Barnes
Executive Chairman of the Board

Sandra E. Bell
CFO & Principal Accounting Officer

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Breach Inlet Capital Management, LLC

SHAREHOLDERS

Unknown Shareholder

Presentation

Operator

Greetings. Welcome to the Tiptree Inc's. Fourth Quarter 2021 Earnings Conference Call. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Sandra Bell, Chief Financial Officer. Thank you. You may begin.

Sandra E. Bell
CFO & Principal Accounting Officer

Good morning, and welcome to our fourth quarter 2021 earnings call. We are joined today by our Executive Chairman, Michael Barnes; and CEO, Jonathan Ilany. You can find the slides that accompany this review on our Investor Relations website.

Please note that some of our comments today will contain forward-looking statements based on our current view of our business, and actual future results may differ materially. Please see our most recent SEC filings, which identify the principal risks and uncertainties that could affect future performance. In addition, we will discuss certain adjusted or non-GAAP financial measures which are described in more detail in this morning's presentation. Reconciliations of non-GAAP financial measures and other associated disclosures are contained in our SEC filings, the appendix to our presentation and posted on our website.

With that, I will turn the call over to Michael.

Michael Gene Barnes
Executive Chairman of the Board

Good morning, everyone, and welcome to our fourth quarter earnings call. 2021 proved to be one of the best years for Tiptree since its founding in June 2007. Tiptree's share price appreciation plus dividends for the year produced a total return for shareholders of 179%. Revenues for the year increased to $1.2 billion, up 48% from the prior year. And adjusted net income increased to $64 million, up 24%, a record year for both metrics. All of Tiptree's cornerstone businesses were profitable in 2021. Under the guidance of CEO, Rick Kahlbaugh and his team, our specialty insurance business, the Fortegra Group, continued to build upon its exceptional multiyear track record, producing a record adjusted return on equity of 22%, while growing top line premiums at 32% for the year. 2021 marks the seventh year, which Fortegra has been part of the Tiptree family of companies.

In that time, top line premium and equivalents have grown from just over $860 million to $2.2 billion, representing a 17% growth rate. The combined ratio has been extremely consistent at an average 91%, which improved modestly in 2021. And lastly, adjusted net income has improved to $67 million as of 2021 growing 23% per annum since our acquisition. We are quite proud of these achievements and anticipate seeing Fortegra continue this growth.

In October, we announced a $200 million investment in Fortegra from Warburg Pincus, which upon closing will result in an approximate 24% ownership of the business on an as-converted basis. We believe Warburg's investment validates Fortegra's growth story and evidences Fortegra's intrinsic value. As we progress through the regulatory approval process, which we anticipate will be completed in the second quarter of this year, we are looking forward to working closely with Warburg's team of seasoned professionals and welcome their partnership in guiding Fortegra's continued growth.

Investments held at Tiptree Capital also performed well in 2021, with return on average equity of 22%. Our ownership of Reliance, which originates and services residential mortgages as well as Tiptree Marine, which holds our various shipping interests, reported excellent results for the year. Benefiting from favorable market conditions as global economies continued the recovery from the depths of the COVID-19 pandemic. We are constantly evaluating the best use of shareholder capital, comparing the long-term returns of potential investments in our businesses versus the gain from share repurchases.

Over the past several years, in periods when our shares have traded at a clear discount, we have been very active in buying back Tiptree's stock. In fact, from 2014 through 2021, we repurchased a total of 15 million shares or 36% of the shares outstanding at year-end 2014, and these were purchased at an average of a 45% discount to book. In summary, we were very pleased with Tiptree's results for 2021 and believe there is a clear path to continued growth in the coming years.

With that, I'll pass it to Sandra, who will take you through the financial results in more detail.

Sandra E. Bell
CFO & Principal Accounting Officer

Thank you, Michael. On Page 3 of the presentation, we highlight Tiptree's key financial metrics for the fourth quarter 2021 compared to the prior year period. We incurred a net loss of $400,000 in the quarter, driven by unrealized losses on investments and increased stock-based compensation expense, given the improvement in Tiptree's stock price. This was offset by continued growth in the insurance business and positive performance in our mortgage and shipping operations.

Excluding investment gains and losses, revenues were up 31% for the quarter, driven by organic growth in insurance operations and increases in dry-bulk charter rates. Adjusted net income for the quarter was $16.9 million, representing a 16.8% annualized adjusted return on average equity. For the total year 2021, adjusted net income was $63.9 million, up 24% versus the prior year. These strong operating results were driven by the growth in revenues as well as the modest improvement in the combined ratio at Fortegra.

Book value per share of $11.22 increased by 4.4% versus the prior year compared to the third quarter of 2021, book value per share declined by $0.15, primarily driven by unrealized losses on the bonds held in Fortegra's investment portfolio that stemmed from the rise in interest rates during the quarter.

Turning to Page 4. We highlight Tiptree's sum of the parts value reflecting the impact of Warburg's $200 million investment in Fortegra. Based on the transaction multiple of 2021 adjusted net income implicit in Warburg's investment, Tiptree's retained ownership of Fortegra represents approximately $717 million or $19.57 per diluted Tiptree share. $140 million of the proceeds will go to Tiptree holding company to fully repay outstanding debt with the remaining $60 million to be deployed as growth capital within Fortegra. When you include the book value of Tiptree Capital and holding company assets, after the transaction closes, we believe Tiptree sum of the parts to be at least $25.85 per diluted share.

On the next page, we highlight Fortegra's results for the quarter. As Michael mentioned, we continue to see strong momentum in Fortegra's performance. For the fourth quarter 2021, premiums and equivalents increased 17% year-over-year driven by growth in all lines of business, including admitted, excess and surplus and warranty line. Deferred revenues and unearned premiums, which represent future earnings potential, stood at $1.7 billion, up 32% year-over-year. For the quarter, underwriting and fee margin increased to $67 million, up $17 million or 34%. The combined ratio improved by 60 basis points year-over-year to 89.4% for the fourth quarter of 2021 as operating and technology efficiencies contribute to an improved expense ratio and the underwriting ratio improved given the changing business mix.

Fortegra continues to experience hard market conditions in specialty commercial lines and has yet to observe any material impacts from inflation on warranty lines. The team manages the profitability of the underwriting operations carefully using the variable rate commission structures and traditional reinsurance as well as targeting underserved markets with limited aggregation and catastrophic exposures.

On Page 7, you can see the insurance company's financial trends. We've been very pleased at Fortegra's ability to deliver for agents and customers over the past 3 years. The resiliency of the business model has been demonstrated as the team navigated through the pandemic with minimal, if any, disruption. Gross written premiums and equivalents have increased 30% over this period with a 21% organic growth rate. Specialty commercial lines have grown 38% through the addition of new agents and programs and the expansion of E&S offering. Personal lines have increased 12% and benefited from the bounce back in consumer spending in 2021. And warranty lines has doubled through increased market penetration by providing a vertically integrated product offering to agents, dealers and retailers as well as significant expansion in Europe.

Importantly, the combined ratio is not only stable but has shown consistent improvement over time, moving from 92.4% in 2019 to 90.6% in 2021. Adjusted net income increased to $66.8 million in 2021, representing a 43% growth rate over the past 2 years. Adjusted return on equity has improved from 12% to 22% over the respective period. The driver of the expanded ROE is a combination of 2 factors: one, an improved combined ratio; and two, the buildup of unearned premiums and deferred revenues have begun to flow through the income statement and provided the lift to earnings we expected.

Turning to the insurance investment portfolio on Page 8. Total investments and cash and cash equivalents ended the quarter at $910 million, up 28% year-over-year, in line with the underlying premium growth. 84% of the portfolio is invested in high credit quality and liquid securities with an average rating of AA+. Overall, contributions from the investment portfolio remained consistent year-over-year as increased net investment income was partially offset by unrealized marks on fixed income securities. The fixed income portfolio has a relatively short duration. While unrealized marks have impacted book value, generally, we have the ability to hold these securities to maturity and view the potential for rising rates as a positive for Fortegra's investment portfolio.

Fortegra's capital and liquidity position remains strong. With $300 million of shareholders' equity, debt capacity of nearly $200 million and an ability to draw $60 million of capital upon the transaction closing, all of which puts the business in a solid position for future growth.

On Page 10, we present the results of Tiptree Capital, which consists of our mortgage and shipping operations as well as our Invesque shares. 2021 adjusted net income was $28.2 million representing a 16.2% adjusted return on equity for the year. Our mortgage business has benefited from several tailwinds over 2020 and 2021, including higher refinance volumes, supported by both low rates and rising home prices as well as the growing servicing book. As of December 31, 2021, the fair value of the MSR asset was $30 million. We believe the MSR and higher home values will offset some of the impact on originations as mortgage rates rise. For the year, our shipping business contributed $10.7 million of adjusted net income as supply and demand imbalances in global trade have driven dry-bulk shipping rates to cyclical highs.

Now I will turn the call back to Michael to conclude our prepared remarks.

Michael Gene Barnes
Executive Chairman of the Board

Thanks, Sandra. 2021 was an exceptional year. with all of our major businesses performing well. Although we certainly had the benefit of a favorable market environment, our performance is also directly attributed to the hard work and expertise of Tiptree's team of professionals and those of our related companies. We could not be more excited for Tiptree's future, and we are confident in the long-term outlook of the company.
With that, we will open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Chris Colvin of Breach Inlet Capital.

Chris Colvin
Breach Inlet Capital Management, LLC

I have 3 of them. First is Fortegra continues to exceed expectations and the deal is looking more and more attractive from Warburg's perspective. So I'm sure they want to get it closed as much as we do. Is my understanding that the small delay is primarily just due to kind of getting some regulatory approvals?

Michael Gene Barnes
Executive Chairman of the Board

Chris, that's exactly correct. This is just normal course of business. Everything is on track. And I'll say that through this period, while we're going through the regulatory approval process, we've been working closely with Warburg as we anticipate them becoming our partners and have conducted a number of meetings to look at Fortegra's strategy going forward and ways to optimize it. So everything for us is looking on track, and we're feeling very optimistic about bringing them in as partners.

Chris Colvin
Breach Inlet Capital Management, LLC

Great. Great to hear. So despite announcing that Warburg transaction, the stock hasn't moved much, and continues to trade at over 50% discount to what I think is a conservative estimate of fair value. So it seems like more drastic actions might need to be taken by the Board. I think you agree that non-Fortegra assets have been somewhat over earning and are cyclical, so now it could be a good time to divest those. So why not sell the non-Fortegra assets to a third-party, are your team even at book value and then convert Tiptree to a pure play Fortegra. I think in that scenario, you could see the stock immediately double and no one benefits more than you and your team, given the lucrative comp package that was awarded last year. So if the Board is looking out for the best interest of all shareholders this seems like the obvious choice. But want to hear your perspective and any thoughts you can share from the Board's perspective on that plan?

Michael Gene Barnes
Executive Chairman of the Board

Yes. And I think, Chris, as we've said in the past, and I think it's an excellent question you asked, it's certainly our objective and remains our highest priority to bridge that gap between where our shares trade and what we believe is fair intrinsic value. And you are correct. I think we ourselves sort of scratch our head as to why your shares trade where they are. And part of it is that we're not closed yet. We certainly acknowledge that. Until we get this closed, I think there will always be a hesitancy for people to fully accept that, that is a done deal, but we see it as continuing as I said before on path as expected. With regard to the other assets selling Tiptree Capital, we are always looking to optimize returns. If we think there is a better buyer and holder with -- and willing to pay a price that we think is fair or above market, we will consider selling. We've always conducted our business that way. Some of our assets, which are -- have been performing extremely well these last few years.

For example, our mortgage origination servicing business, we think is better kept and has been producing and kicking off tremendous cash flow relative to its capital investment, relative to its book value. And we're going to continue to, I think, enjoy those returns for some time. So with regard to other assets, we will always consider divesting when we think it makes sense. But our objective for shareholders is to allocate capital where we see best risk-adjusted returns that we can achieve in the marketplace. With regard to Fortegra, I agree, they're not just hitting the numbers, exceeding their numbers. We think that's great. And I think when you look at Warburg investing, they didn't invest based upon the belief that, that was the end value, they clearly saw this business growing and of a greater value down the road, and we agree.

I think even on conservative metrics, you're going to see Fortegra down the road if priced in the public markets, and if we ever consider, as we said in the past, we likely would, another IPO, we think that, that value will be significantly higher. So even the $25 that we show in our investor report, we think it's conservative. With -- but counter that, we will just continue to allocate capital as we see best return, we will nurture our investments till we see an exit that makes sense. We certainly don't want to just sell our winners and keep our losers, -- we'd rather do the opposite. And so we're going to manage our money that way. We will always consider share buybacks.

And in fact, Chris, we'll say based upon some conversations we've had, we wanted to note that we've purchased back 15 million shares, almost 36% of the shares outstanding at the end of 2014. So that is always in our mind. But with the precious capital we have and with the objective of working with our partners at Warburg down the road to look for further acquisitions, look for growth capital. We want to certainly keep our capital appropriately, but we will consider buying back shares when appropriate. But for now, it's steady as she goes. We're happy with our businesses. They're all performing well. But we will consider moving assets and moving capital when appropriate. I hope that answers your question.

Chris Colvin
Breach Inlet Capital Management, LLC

Yes. My third question, you partially answered. To me that, like I said, I think the breakup and I think most shareholders on this call, I'd be willing to bet over 90% of them agree with what I've said in the first comment. And I think the discount right now, given in your non-Fortegra assets, it's basically getting a negative value if Fortegra is anywhere close to getting fair value. So it just seems like -- in every holding company structure, I guess, -- just another comment on my second question is I can't think of a holding company that doesn't trade at a big discount. And often, those holding companies are less disparate assets. And I would argue yes, there's more kind of synergies and reasons for those assets to be together where -- and you typically don't have one such dominant asset. The only holding company I can think of that they're monetizing the large assets as we speak.

But if not the breakup scenario, as you just mentioned the buybacks, which, yes, you've done a lot historically, but I don't think any have been done since the Fortegra IPO was canceled and the stock trades at a massive discount to what we both agree is a very conservative estimate of fair value. So why not repurchase shares more aggressively or at all in the fourth quarter? And then why not consider a massive share tender once you get the capital from Warburg? Understanding you need some piece to grow, but this is generating cash and you're going to have a net cash balance sheet if I understand correctly. So that seems like a great return where you can buy $1 for $0.50 and that dollar is growing at 20% a year.

Michael Gene Barnes
Executive Chairman of the Board

It certainly will always be a consideration. And as I've said, we always consider share buybacks, anything appropriate. But we do have to balance that with the -- on the other side of the equation, which is where do we want to be allocating to our businesses for long-term growth and certain businesses, and certainly in Tiptree Capital with that -- I mean there are certain businesses that throw off a lot of cash flow, have a tremendous return on book value and the capital we have invested in those businesses that we can continue to draw out of those businesses and reallocate to other businesses or do share buybacks. So nothing is off the table. But that being said, we're just -- we first want to make sure we get the Warburg deal done. We'll consider options as we go forward. But I want to make sure we preserve capital to grow our businesses.

And Chris I'll say we take a long-term view. We think that producing outsized returns to other investment opportunities that investors have available to them over the long term and to consider all options of allocating capital, buying back shares, et cetera. And to get out there and tell our story, we think those will ultimately bridge the gap between where we trade and where our intrinsic value is. But we got to take one step at a time, and we don't want to just throw babies out with the bathwater. We want to make sure that we're making intelligent commercial decisions when we allocate or dispose of assets.

Operator

Our next question is from [Joe Salerno], shareholder.

Unknown Shareholder

Michael, can you give us a little bit of detail on what's the delays in the Warburg's deal? Like is it a state-by-state approval process, if there's 20 states are you through 15 or whatever? Just any sort of detail on the inside baseball on that.

Michael Gene Barnes

Executive Chairman of the Board

Yes. I'll tell you, [Joe], and by the way, thanks for the question, [Joe], and good to hear from you. We operate in 8 states, and it's a complex process going through regulatory approval and each state is different. This is normal course process. There's -- for us, everything we feel is on track. And so I would say with great confidence that everything is going as expected.

Unknown Shareholder

Okay. Great. And sorry to harp on the some of the parts, bridging that gap and all. But let me ask the question this way. As a shareholder, I appreciate your quote on the front page of the press release saying that it's the highest priority to bridge that gap. And just to again, pull out the detail, your quote was, we believe, significant progress toward that end and will be made in this coming year. I know you're not putting a line in the sand that at all it has to happen this year or else. But that alone suggests to me that you might have some ideas about how the significant progress toward that goal will be achieved. You said it in October when the stock was $14 and you announced the Warburg deal that this is a high priority. And here we are 5 months later. But -- so can you give us any sort of -- what's on your plate as to when you think could achieve this significant progress, this significant bridging of the gap?

Michael Gene Barnes
Executive Chairman of the Board

Right. First, getting Warburg closed, nurturing Fortegra throughout the year, considering add-on acquisitions, if appropriate, and continuing to nurture what's our largest asset. That's one of the highest priorities, and we see Warburg is giving evidence to the value of Fortegra. And again, using any market matrices in terms of where specialty insurers are priced in the public markets. I think one can get to an even materially higher valuation for Fortegra than even where we're showing in a breakup value. That aside for our other assets, certainly considering the balance between the return on capital that we're enjoying in certain assets right now in Tiptree Capital, along with those that may have appreciated value where we may see a better value of reallocating those assets that capital into something else like Fortegra down the road.

So just looking for ways to create continuing cash flowing and scalable capital allocation is our objective. And as we see businesses that are not meeting that or that we think don't achieve that, we're going to consider whether we should be reallocating that capital to businesses and opportunities that do. And then as has already been discussed and always considering share buybacks when appropriate.

And I'll say also, we took an initiative last year to try to also do better at getting out there and communicating our story, both at the Fortegra level as well as at the Tiptree level. So we have, in fact, really set out an objective this year to try to get out particularly post-pandemic as pandemic is starting -- relief is starting to occur and to get out and tell our story to a broader audience. Those are the things we're trying to do.

Unknown Shareholder

Could an IPO be considered sometime in 2022? Or is there anything standing in the way that, that is not an option? I'm not saying a promise but...

Michael Gene Barnes
Executive Chairman of the Board

I would say that's too soon. I would say that's too soon. I would say that first, getting Warburg closed, getting the capital into Fortegra. There's still additional capital that can be drawn from the Warburg investment down the road. But I would say it is certainly both Warburg and our objective to maximize Fortegra's value down the road. Absent Warburg, I would have said we would have started to consider maybe re-IPO-ing Fortegra earlier, sometime probably in 2023 is where I think I said in the past. I think that's pushed out a bit, given the capital that came in from Warburg, which I think will help us grow Fortegra and help us have a more successful IPO, a larger business, a larger IPO, and we think that's going to be a much greater value to shareholders. So I would push that date out to probably sometime 18, 24 months out from that.

Unknown Shareholder

Okay. Not necessarily the answer I want to hear. I think most of us want to hear, but -- there you have it. Okay.

Operator

[Operator Instructions] Our next question is from [Emmet Buro], a shareholder.

Unknown Shareholder

Look, I apologize for being the person who is hopping on you here on top of everyone. But for what's it worth, I think that part of the issue here is -- and what we would -- I think and other shareholders would ask you guys to consider is when you look at the ex-Fortegra businesses, I think they're great businesses. But if you say the return on capital of that business is 15%, making up a number and a return on capital of Fortegra is 13%. I understand the inclination to hold on to the better return on capital business. But the reality is that removing those assets and consolidating that capital into Fortegra, expands the multiple so much. That's the only way you're going to close the valuation gap. Right, I think people would say...

Michael Gene Barnes
Executive Chairman of the Board

We could not agree more. I will tell you, we are keenly aware of that. We see the multiple with specialty insurers trade. We think helping to grow Fortegra is by far the greatest value to our shareholders. And I apologize for interrupting. I just wanted to tell you, I agree with you on that. And we do evaluate this point that not every business gets a great multiple, although it may be a great cash flowing business, I'll use the mortgage business as an example. 2020 produced almost 100% return on invested capital. 2021 it continued to have just outstanding performance.

And that's a cash business, very little risk and where we can pull cash out and reallocate. You're not going to get a great bid in the market for that business and it doesn't trade at a great multiple, but it is a great business, great management, scalable and a great cash flowing business. I'm not wanting to throw out businesses that are producing those type of returns. That's what we're looking for. And so there is a balance, but I -- believe me, I will tell you, I am very keenly focused on creating sustainable scalable, higher-multiple businesses that will increase our share price and Fortegra is that. No question about it.

Unknown Shareholder

Right. And I think that the other issue, candidly -- and by the way, I definitely commend you guys on getting out there and telling the story. I do think that the way you tell the story, you guys need to do a better job in providing more transparency into the non-Fortegra assets. Because I think right now, one of the concerns that shareholders -- potential shareholder has is it looks a little bit like this is -- and don't take this wrong way, this is basically Fortegra with Michael Barnes PA on the side, right. And I don't know what you're going to do, and I don't know -- I must say you're a great investor. But institutional investors, right, are not excited to do that. That's not what they want, right. And...

Michael Gene Barnes
Executive Chairman of the Board

I hear you. Look, I am the largest shareholder. And when you look at the...

Unknown Shareholder

I agree. And that's why I'm excited to be a shareholder next year. If you guys want shareholders, this would be a different story.

Michael Gene Barnes
Executive Chairman of the Board

And I will tell you, it is certainly not a PA, but it is -- when we formed Tiptree with outside investors, the objective was to allocate capital based on our expertise and our expertise resided in financial services, it also resided in credit, it also resided in hard assets and asset finance like aircraft, like ships, like real estate, and that's where we focus. And we've been involved in a variety of assets over the years and more than one insurance company over the years. And Fortegra was not our first. So as we see these businesses do well, we're going to consider every way to grow them and then ultimately monetize them if appropriate.

But as long as they are winners and making money, we're going to nurture them and try to keep them as long as possible. But some businesses like Fortegra, and I will acknowledge, may have a better pricing of capital raising in terms of equity and credit on their own via an IPO or other sale down the road than it would if it was continuing as part of Tiptree. So we're conscious of that. But our job is to look to allocate capital where we see best risk return, and that's what we've been doing for the last -- almost 15 years, and we're just going to keep doing it.

Unknown Shareholder

Yes, look, again, I think IPO-ing Fortegra, I understand why do you think that makes sense. But the issue isn't that Fortegra is tucked away somewhere, it's the other stuff that's the problem in terms of what investors want. And I guess -- and I think the right -- and it's not that they're bad businesses, they're great businesses, right? I'm not disputing that, but it's just at some point, the definition of insanity is doing the same thing over and over and expecting a different result. And what the market's clearly, I told you, they don't care. They don't want these assets, right? Hence like I think you're supposed to sell them, take the proceeds, push it into Fortegra and I think this thing is a $25, $35 stock easily.

Michael Gene Barnes
Executive Chairman of the Board

We are considering all options. Bridging that gap -- we hear you and bridging that gap. It's our objective, too. And I'll just mention, look, in 2021, our Board, and this goes back to a question [Joe] asked, I think, our Board wanted to align management's consensus with share price and a new incentive plan was put in place to achieve ever-increasing share prices for incentives. That is our incentive and to reduce in the aggregate for the senior executive officers, the aggregate of compensation based on EBITDA. And that was something we'd heard from shareholders, and we -- the Board acted. I think that's the right incentive.

So you should know, we are very aligned, not just as the largest shareholders. But with our incentives in place to achieve ever-increasing share price over the years. So there is very much a focus on how do we bridge that gap? How do we get our share price to reflect fair value? And I'll say again, I think $25 is the low end of the range, in my opinion, I'm speaking my own view. But I think you look at any common multiple as to where specialty insurers are priced to market, and it will take time to get Fortegra further grown, bigger to the point that we do want to consider possible options for having it stand on its own. But I think when it does, you'll see a valuation that's materially higher than where Warburg put their money in. That's why they did.

Operator

Our next question is from Andrew Cowen of Brean.

Andrew Cowen

So given the float at Fortegra and rising rates, is there like a sensitivity on some move somewhere at whatever point in the curve, the rate curve, to I guess, a 1% move equal whatever potential increase in earnings? And can you also go over the -- it's been pretty volatile in the credit markets past 3, 4 months. Can you just discuss what the return profile was for the credit book in fourth quarter? And is there anything to worry about for this quarter?

Michael Gene Barnes
Executive Chairman of the Board

Right. Excellent questions, Andrew. Thank you for that. The first -- the answer to the first question. So inflation with respect to the float investment paid in premiums on behalf of Fortegra, as we state on Page -- I think it's Page 8 of our investor report, you'll see that we keep about -- almost 84% of it is very high-quality short duration fixed income assets. There is going to be some impact on the price of those assets, but it's an unrealized mark-to-market based on a short-term spike in rates that we saw in the fourth quarter. And because of the short duration, it's not going to have a material impact. More recently, since what's taken place in Ukraine, you saw rates slightly come down a little bit. So we see a little bit of offset there. But there's no material concern we have there with regard to rates long term. Longer term, as our positions roll off and we're able to reinvest them in a higher rate, it ultimately may produce better returns for Fortegra.

Andrew Cowen

Yes, that was my point. I would assume that mark-to-market loss is de minimis, right? I mean who cares? It's a 2.5-years duration, that's okay. But is there -- I mean can we assume that, say, a 50 basis point move in the 2- to 3-year tenor quote U.S. treasury or whatever or GSE rate translates to x dollars, something like that? There are a few number of financial firms that do that kind of stuff.

Michael Gene Barnes

Executive Chairman of the Board

I was going to say, we do not put that out because we are always modifying the float in terms of any type of expected change based on rates. But I think one can do -- any fixed income trader can do the math as to what has changed in sort of the 2-year, 3-year type range is going to do to the unrealized mark-to-market change in these assets. I'll be honest, as I said, as -- if rates spike up and spike up significantly, we're well positioned to be able to take advantage of the higher rates and as our assets roll off and are reinvested we'll get the benefit of that as opposed to if we were investing in a longer-dated assets. So I like how we're positioned. We've even taken steps to make sure we've moved -- we've modified our positions as it relates to agency mortgages in anticipation of Fed actions as it relates to what they had previously been doing with regard to purchasing mortgages, possibly -- well, publicly stopping those purchases and possibly selling down their books.

So we are active at trying to consider what a rising rate environment is going to do, and we think we're very well positioned on that part of the book, and that's 84% of our book. The second part of your question was credit. And I'll tell you, if there's an area that we know well and can certainly say we know probably as well as any one is credit and a more volatile credit market is opportunity. And we do allocate a part...

Andrew Cowen

Yes. I would expect that. Definitely.

Michael Gene Barnes
Executive Chairman of the Board

Yes. And so certainly, in the fourth quarter, there was some widening of spreads. There's some impact on certain positions. But unrealized, I'll say again, and I look at how we're performing now with the opportunities going forward. I couldn't be more pleased about both the team we have in place to take advantage of that. And this is the type of market where we prosper. When spreads are crunching tighter and tight it's hard to make money. When there's volatility and there's opportunity, there's more opportunity to make money. So we like this market. We see that improving the float prospects. And so far, I'll say, knock on wood, we're doing pretty well. I'm comfortable with where we are in our overall credit book. Look, given that it's a minority of the overall float, it's not going to have a huge impact. But that being said, it's a better market for us now to improve the float returns than it certainly has been over the last few years.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back over to Sandra Bell for closing remarks.

Sandra E. Bell
CFO & Principal Accounting Officer

Thank you, Hilary, and thanks, everyone, for joining us today. As always, if you have any questions, please feel free to reach out to me directly. This concludes our fourth quarter 2021 conference call.

Operator
This does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.