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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(RULE 14a-101)  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the Registrant:   
Filed by a Party other than the Registrant:   
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**REDWOOD TRUST, INC.**

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
    - (1) Title of each class of securities to which transaction applies:
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    - (4) Proposed maximum aggregate value of transaction:
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  - Fee paid previously with preliminary materials.
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    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
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**Explanatory Note:** As part of its regular, ongoing engagement with stockholders, Redwood Trust, Inc. (Redwood) is conducting meetings or teleconferences with stockholders in advance of its 2018 Annual Meeting of Stockholders. The attached presentation, titled “Performance-Based Executive Compensation at Redwood Trust, Inc.,” is intended to facilitate discussions at those meetings or teleconferences and presents information regarding Redwood’s executive compensation program, including information taken from Redwood’s 2018 Proxy Statement filed with the Securities and Exchange Commission on March 28, 2018.

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May 2018



## Performance-Based Executive Compensation at Redwood Trust, Inc. (NYSE: RWT)



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### ■ Redwood's compensation program is administered by an independent Compensation Committee of the Board

- Independently incentivize attainment of both short-term and long-term business and stockholder return objectives by:
  - Achieving stable and attractive ROEs to support the payment of regular and sustainable dividends, as well as increase book value
  - Meeting annual strategic, business, operational, governance, and risk management goals established by the Board
- Align the interests of executives with long-term stockholders in achieving strong stockholder returns
- Enable Redwood to hire and retain executives in a competitive marketplace
  - Market-based compensation benchmarking and analysis are used to evaluate compensation relative to peer companies
- Avoid incentivizing inappropriate risk taking

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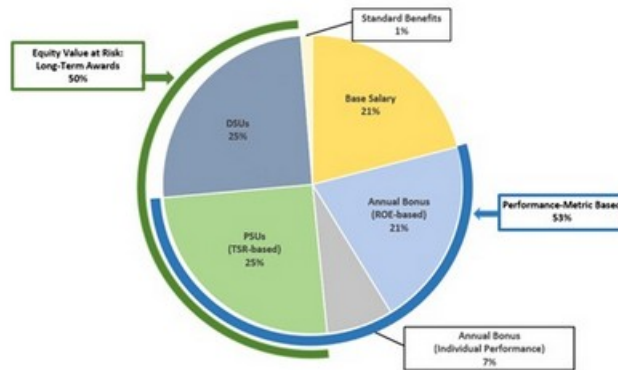
### ■ Performance-based executive compensation program appropriately adjusts pay delivery up or down to independently reflect both short-term operating results and long-term total stockholder returns (TSR)

- For 2017, executives' above-target annual bonuses were the result of very strong return on equity (ROE), while the value of prior years' equity awards were realized/forfeited based on longer-term TSR



- **The philosophy and key elements of the program have remained consistent in recent years, based on the:**
  - Compensation Committee’s annual review of the structure and results of application of the program, which is conducted in consultation with the Committee’s independent compensation consultant
  - Feedback received as part of an ongoing outreach with stockholders, as well as consistently strong “Say-on-Pay” support (90% average annual stockholder approval over the 2011-2017 period)

**2017 Elements of Target Annual Compensation - Average of Ongoing Executive Group<sup>1/</sup>**



<sup>1/</sup> Excludes Redwood's current CEO as a result of his announcement to retire from the CEO position on May 22, 2016. Further information regarding this pie chart is included in the Executive Summary of CD&A on page 36 of Redwood's 2016 Annual Proxy Statement.

## Key Elements of 2017 Executive Compensation Program



### ■ Base Salary and Standard Benefits

- Base salary and standard benefits together generally represent less than 25% of an executive's target compensation

### ■ Annual Bonus

- 75% earned based on ROE-based performance metric
  - Performance target must at least represent earnings equal to regular annual dividends set by the Board; no above-target bonus is paid unless earnings exceed regular annual dividends set by the Board
    - In particular, the performance target for 2017 was Adjusted ROE\* of 9.00%, an increase from the prior year
  - As a real estate investment trust (REIT), under the Internal Revenue Code, Redwood is required to distribute as dividends at least 90% of the income earned under its REIT status
- 25% earned based on individual contribution to strategic, business, operational, governance and risk management goals

### ■ Performance Stock Units (PSUs)

- Non-cash equity-based compensation awarded annually that represents 50% of total annual long-term incentive grant
- Vesting is contingent on positive TSR as measured over a three-year performance vesting period
  - Target-level vesting if TSR is 25% over the three-year vesting period
  - Forfeited if TSR is flat or negative as measured over the three-year vesting period

### ■ Deferred Stock Units (DSUs)

- Non-cash equity-based compensation delivered after the conclusion of a four-year vesting period
- Represents 50% of the annual long-term incentive grant

<sup>1/</sup> Adjusted ROE is calculated as reported GAAP net income divided by GAAP equity after excluding from equity unrealized mark-to-market gains and losses. This adjustment enables the calculation of an "apples-to-apples" non-GAAP ratio of earnings to equity capital for purposes of evaluating financial performance. Further information about Adjusted ROE is included on pages 47 and Annex A of Redwood's 2018 Annual Proxy Statement.



■ **Strong 2017 Operating Performance**

- 2017 earnings per share of \$1.60 (fully diluted, as reported under GAAP)
- 2017 ROE of 11.9% (based on 2017 GAAP financial results)
- GAAP book value per share increased by \$0.87 per share during 2017, or 5.82%, after paying cumulative dividends of \$1.12 per share

■ **Strong 2017 Risk-Adjusted Returns Relative to Other Mortgage REITs (mREITs)**

- The accompanying graph illustrates Redwood's strong 2017 performance relative to other publicly-traded residential mortgage REITs, many of which have business models that employ higher leverage risk than Redwood

Average GAAP Leverage vs. Return on Average Equity - 2017



■ **Mortgage REITs Included in Performance Comparison**

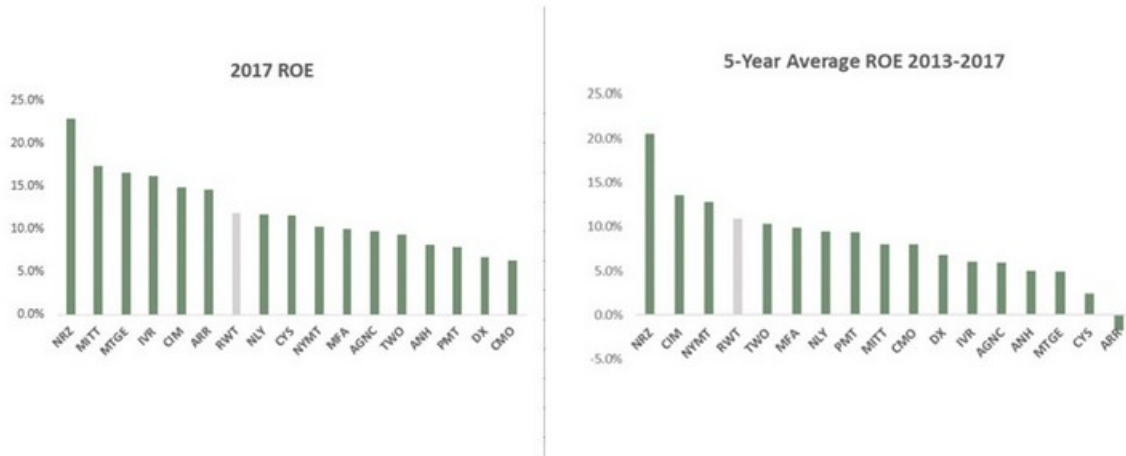
- Publicly-traded mortgage REITs focused on investing in residential mortgages and related assets: MITT; AGNC; NLY; ANH; ARR; CMO; CIM; CYS; DX; IVR; MFA; MTGE; NRZ; NYMT; PMT; TWO
- A subset of these mREIT peers (Agency Peers) are focused on investing in residential mortgages eligible for purchase by, and mortgage-backed securities issued or guaranteed by, Fannie Mae, Freddie Mac, or other government-sponsored enterprises or Federal agencies

## ROE Performance Relative to Other Publicly-Traded Mortgage REITs



### Redwood's one- and five-year ROE performance compares favorably to other publicly-traded mortgage REITs

- Redwood has regularly compared its financial performance to these other publicly-traded mortgage REITs because their business models share a common focus on investing in residential mortgages and related assets
- An ROE-based performance measure is the primary determinant of annual bonuses at Redwood and, as a result, there is a strong correlation between Redwood's ROE and the CEO's annual bonus





## Redwood's Long-Term Performance



### ■ Solid Long-Term Results

- Five-year average annual ROE of 10.9% (based on annual GAAP financial results)
- Five-year TSR of 23%
- Over the 2013-2017 five-year period, GAAP book value per share increased by \$1.88 per share, or 13.4%, after paying cumulative dividends of \$5.60 per share



### ■ Long-Term Growth in Book Value Relative to Other mREITs

- GAAP book value is a key valuation metric for mortgage REITs
- As illustrated by the accompanying graph, Redwood's growth in book value over five years has been strong relative to other publicly-traded residential mortgage REITs

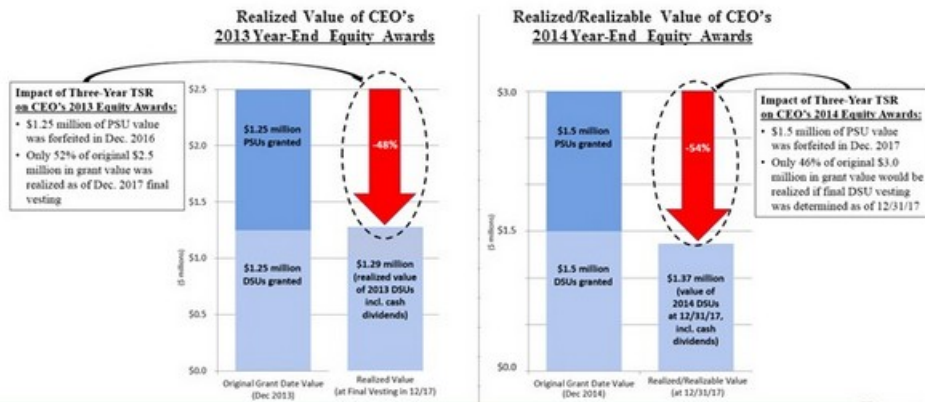
### ■ Solid ROEs and Strong Book Value Growth Have Not Correlated with Long-Term TSR

- Although Redwood has exhibited solid ROEs and strong book value growth over the last five years, its 5-year TSR and 3-year TSR have not tracked this performance
- As illustrated on the following slide, Redwood's compensation program independently addresses this lagging long-term TSR performance through the use of long-term equity awards whose value is only fully realized when long-term TSRs are strong

## Value Realized From Equity Awards Tracks with TSR Over Multi-Year Periods



- **Realization of the value of prior years' long-term equity awards (or the partial or total forfeiture of that value) is a key component of Redwood's performance-based compensation program**
  - The overall target value of these awards is only realized when stockholders experience attractive long-term returns during the three- and four-year vesting periods
  - The graphs below illustrate how the compensation program's use of long-term equity awards addresses long-term TSR performance by reviewing the realized/realizable value of the equity awards granted to the CEO in 2013 and 2014
  - The Summary Compensation Table in the Annual Proxy Statement fails to capture the impact of this realized or forfeited value, which value is at risk over the applicable three- or four-year vesting period



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| <b>Executive Compensation</b>   |   |
|---|---|
| <p><b>What Redwood Does</b></p> <ul style="list-style-type: none"> <li>✓ Directly links annual bonus to performance</li> <li>✓ Generally provides approximately half of compensation to executives in long-term equity-based awards</li> <li>✓ Imposes three- or four-year vesting/holding periods on annual long-term equity grants</li> <li>✓ Maintains robust stock ownership requirements; for example, a 6x base salary requirement for the CEO</li> <li>✓ Maintains a bonus and incentive payments “clawback” policy if fraud or misconduct results in a financial restatement</li> </ul> | <p><b>What Redwood Does Not Do</b></p> <ul style="list-style-type: none"> <li>✗ No ongoing guaranteed bonus arrangements</li> <li>✗ No significant amount of fixed compensation - only base salary and standard benefits are fixed on an ongoing basis</li> <li>✗ No “single-trigger” change-in-control payments or benefits</li> <li>✗ No excise tax gross-ups for any change-in-control related payments</li> <li>✗ No margin, pledging, or hedging transactions permitted with respect to Redwood stock</li> </ul> |



**Focus Topic:**  
**Redwood's Compensation Benchmarking**  
**Peer Group**



- **The Compensation Committee uses of a compensation benchmarking peer group in connection with market-based compensation analysis and validating competitive positioning in attracting and retaining executives**
  - This benchmarking peer group is determined annually, using a pre-defined process and objective industry and size criteria and with the input of the Committee's independent compensation consultant
    - For selecting benchmarking peers of comparable size, Redwood focuses primarily on market capitalization and net income as the most relevant metrics (as further described on the following slides)
  
- **Compensation Benchmarking Peers vs. Performance Comparison Peers**
  - The compensation benchmarking peer group is intended to include companies with which Redwood generally competes, including for executive talent, and is used to benchmark executive compensation, as these companies publicly disclose executive compensation data and are selected based on objective sizing criteria
  
  - For financial performance comparisons, however, the Committee also compares Redwood's performance to the group of publicly-traded mortgage REITs described on slide 5 of these materials, as this group of publicly-traded mortgage REITs focus, like Redwood, on investing in residential mortgages and related assets
    - Many of the publicly-traded mortgage REITs that Redwood's performance is compared to cannot be included in the benchmarking peer group either (i) because they are externally-managed (and do not disclose comprehensive executive compensation data) or (ii) because they are outside of the size parameters used when designating the benchmarking peer group



■ The key steps the Committee follows, and the objective criteria used, in determining the compensation benchmarking peer group are outlined below:

Step 1: Begin with a broad database consisting of publicly traded, U.S.-based companies that are internally managed (externally-managed companies generally have not disclosed comprehensive compensation data and are therefore excluded)

Step 2: Identify REITs and other companies most similar to Redwood (i.e., direct peers), including:

- Mortgage REITs, which are considered “direct peers” along with real estate development and financial services companies with a focus on mortgage servicing or mortgage-related assets
- Exclude all companies with market capitalization values outside of a 0.25 – 4.0x range compared to Redwood

Step 3: Identify other relevant business and labor-market competitors:

- Financial services companies with both market capitalization value and net income in a 0.5 – 2.0x range compared to Redwood
- Remove bank holding companies and companies in the cash advance/pawn broker businesses, due to fundamental differences in the underlying business model

Step 4: Select 15 to 25 companies for inclusion in the compensation benchmarking peer group:

- Include all companies identified in Step 2
- Include companies identified in Step 3 if they: (1) are included in the prior year’s compensation benchmarking peer group or (2) have been identified as a peer of Redwood’s most-direct peers (e.g., a peer of another mortgage REIT identified in Step 2)
- Add additional companies identified in Step 3 to: (1) ensure that the sample size is sufficient (i.e., 15 to 25 total companies) and (2) position Redwood closer to the median on key size measures, focusing primarily on market capitalization and net income and secondarily on revenue and total assets

APPENDIX – Compensation Benchmarking Peer Group (cont.)



- The grid below is an example of the data and analysis the Compensation Committee reviewed in determining the compensation benchmarking peer group for 2017
  - This data was provided to the Committee in March 2017 by its independent compensation consultant in connection with determining this benchmarking peer group (at that time), and illustrates the effort to position Redwood close to the median on key size measures
  - It is noteworthy, for example, that the largest benchmarking peers, from a gross revenue perspective, are not the largest benchmarking peers from a net income perspective

| Latest Available Four Quarters (\$ Millions) |              | Total Assets         |              | Market Capitalization (\$ Millions) |                |                      |                |                      |                |
|--|--------------|----------------------|--------------|-------------------------------------|----------------|----------------------|----------------|----------------------|----------------|
| Gross Revenues                               |              | Net Income           |              | as of Latest Quarter (\$M)          |                | as of 2/28/17        |                | 12-Month Average     |                |
| Stifel Financial                             | \$2,570      | Chimera Investment   | \$552        | Nationstar Mortgage                 | \$19,593       | Stifel Financial     | \$3,677        | Chimera Investment   | \$3,038        |
| PennyMac Financial                           | \$1,232      | MFA Financial        | \$313        | Stifel Financial                    | \$19,129       | Chimera Investment   | \$3,612        | Federated Investors  | \$3,016        |
| Federated Investors                          | \$1,143      | Essent Group         | \$223        | Chimera Investment                  | \$16,685       | Essent Group         | \$3,251        | MFA Financial        | \$2,773        |
| Nationstar Mortgage                          | \$1,054      | AllianceBernstein    | \$217        | Capstead Mortgage                   | \$13,577       | MFA Financial        | \$2,990        | Stifel Financial     | \$2,709        |
| Chimera Investment                           | \$706        | Federated Investors  | \$209        | CYS Investments                     | \$13,245       | Federated Investors  | \$2,758        | Essent Group         | \$2,489        |
| iStar Financial                              | \$521        | Main Street Capital  | \$139        | MFA Financial                       | \$12,484       | AllianceBernstein    | \$2,291        | AllianceBernstein    | \$2,235        |
| Essent Group                                 | \$458        | <b>Redwood Trust</b> | <b>\$151</b> | New York Mortgage                   | \$8,952        | Main Street Capital  | \$2,045        | Main Street Capital  | \$1,781        |
| MFA Financial                                | \$369        | iStar Financial      | \$95         | Ladder Capital                      | \$5,578        | Nationstar Mortgage  | \$1,771        | Cohen & Steers       | \$1,775        |
| Cohen & Steers                               | \$350        | Cohen & Steers       | \$93         | <b>Redwood Trust</b>                | <b>\$5,483</b> | Cohen & Steers       | \$1,741        | Nationstar Mortgage  | \$1,454        |
| Ladder Capital                               | \$273        | Capstead Mortgage    | \$83         | PennyMac Financial                  | \$5,134        | <b>Redwood Trust</b> | <b>\$1,259</b> | CYS Investments      | \$1,253        |
| <b>Redwood Trust</b>                         | <b>\$260</b> | Stifel Financial     | \$82         | iStar Financial                     | \$4,826        | CYS Investments      | \$1,215        | <b>Redwood Trust</b> | <b>\$1,113</b> |
| AllianceBernstein                            | \$239        | New York Mortgage    | \$68         | Dynex Capital                       | \$3,398        | Ladder Capital       | \$1,043        | Capstead Mortgage    | \$956          |
| Main Street Capital                          | \$178        | Ladder Capital       | \$67         | RAIT Financial                      | \$2,407        | Capstead Mortgage    | \$1,016        | Hannon Armstrong     | \$896          |
| NMI Holdings                                 | \$124        | PennyMac Financial   | \$66         | Main Street Capital                 | \$2,080        | Hannon Armstrong     | \$924          | Ladder Capital       | \$861          |
| RAIT Financial                               | \$111        | NMI Holdings         | \$66         | Essent Group                        | \$1,883        | iStar Financial      | \$867          | iStar Financial      | \$791          |
| New York Mortgage                            | \$106        | Dynex Capital        | \$43         | Hannon Armstrong                    | \$1,746        | New York Mortgage    | \$706          | New York Mortgage    | \$683          |
| Capstead Mortgage                            | \$99         | RAIT Financial       | \$25         | AllianceBernstein                   | \$1,541        | NMI Holdings         | \$657          | NMI Holdings         | \$482          |
| Dynex Capital                                | \$58         | CYS Investments      | \$16         | Federated Investors                 | \$1,155        | PennyMac Financial   | \$400          | Dynex Capital        | \$339          |
| CYS Investments                              | \$40         | Hannon Armstrong     | \$15         | NMI Holdings                        | \$842          | Dynex Capital        | \$337          | PennyMac Financial   | \$338          |
| Hannon Armstrong                             | \$38         | Nationstar Mortgage  | -\$100       | Cohen & Steers                      | \$334          | RAIT Financial       | \$310          | RAIT Financial       | \$298          |
| 75th Percentile                              | \$706        | \$209                | \$13,245     | \$2,758                             | \$2,489        |                      |                |                      |                |
| Median                                       | \$273        | \$82                 | \$4,826      | \$1,215                             | \$1,253        |                      |                |                      |                |
| 25th Percentile                              | \$106        | \$43                 | \$1,746      | \$706                               | \$683          |                      |                |                      |                |
| RWT % Rank                                   | 48P          | <b>69P</b>           | 59P          | <b>50P</b>                          | <b>48P</b>     |                      |                |                      |                |

Source: Standard & Poor's Capital IQ.

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**Focus Topic:**  
**Setting Performance Targets**





### **Performance Target for Annual Bonuses**

- **75% of target annual bonuses are earned based on achievement of a target level of Adjusted ROE established by the Compensation Committee**
  - The target Adjusted ROE threshold is established based on a risk-free interest rate plus an incremental premium determined by the Committee to be appropriate (each of which can vary from year to year)
  - For 2017, the Adjusted ROE target was 9.00%, an increase from the prior year
    - This 9.00% target equated to a 1.45% risk-free rate plus an incremental premium of 7.55%
    - Factors taken into account in setting the premium included: Redwood's business model; returns available in the market for credit-risk investments in residential mortgages; Redwood's historical dividend yield; and level of earnings above the level commensurate with earnings equal to the 2017 regular annual dividend of \$1.12 per share
  
- **The Committee's process for reviewing and setting the Adjusted ROE performance target each year provides the ability to adjust compensation incentives annually in a manner consistent with Redwood's business model and risk appetite**
  - The Committee has avoided the practice of simply setting the performance target at the prior year's actual performance level, as this approach (i) would fail to take into account various factors that could, for example, incentivize inappropriate risk taking to duplicate performance year-over-year in different business, market and risk environments and (ii) could result in inappropriately high compensation following a poor performance year



**Performance Target for Performance Stock Units (PSUs)**

- **It is the Compensation Committee's practice for performance-based equity awards to comprise 50% of year-end long-term equity awards**
  - 50% of executives' 2017 long-term equity-based awards were in the form of PSUs that vest based on total stockholder return (TSR) over a three-year performance period
  
- **More specifically, the three-year TSR performance targets for each PSU tranche are as follows:**
  - No PSUs vest if TSR over the three-year performance period is flat or negative
  - 100% of the PSUs vest if TSR is 25% over the three-year performance period
  - 200% of the PSUs vest if TSR is 125% over the three-year performance period
  
- **The TSR performance thresholds for determining whether 0%, 100%, or 200% (or a percentage in between those levels) of the underlying shares of Redwood common stock will vest were determined by the Compensation Committee based on the overall view that a 25% cumulative TSR over three years is an attractive target level of total stockholder return for investors**
  - The Committee has maintained these robust TSR performance targets over multiple years, resulting in significant forfeitures by executives of compensation awarded in prior years after periods when long-term TSR performance has lagged
  - The forfeiture of (or failure to realize the value of) compensation awarded in prior years is not reflected in the Summary Compensation Table in the Annual Proxy Statement and, therefore, this key component of Redwood's compensation program is overlooked in any analysis that relies primarily on data from that table to evaluate Redwood's pay-for-performance correlation over time