

February 21, 2019

Fourth Quarter 2018 Investor Letter

Review and Outlook

Third Point's Offshore Fund lost -11.9% during the Fourth Quarter, bringing returns for 2018 to -11.3%. This was the fourth time in 24 years that we sustained a loss of over 1% in a calendar year and our second double digit decline. Although our performance was disappointing, we took the opportunity to learn from our mistakes, reflect on where our competitive advantages lie, adjust our risk management, and generally improve our processes to drive better results.

Excessive exposure to unhedged long cyclical names and a risk arbitrage position in NXPI accounted for much of the year's negative performance. We had too much long exposure during the Fourth Quarter, which hurt our results in the October and December market sell-offs. A domestically-concentrated portfolio drove our optimistic positioning. While we saw weakness outside of the US, we stayed constructive on US growth. Based on this view, we focused too much on the Fed's direction as the main market catalyst and missed signs of a potential turn in the business cycle. Single name shorts and structured credit performed well but these areas were insufficiently sized to offset long equity losses.

We reduced our net equity exposure during Q4 and believe that our moderate positioning is appropriate for this environment despite a sharp rally in these first weeks of 2019. Our exposure is consistent with our view that last year was a milestone, as a decade of Central Bank quantitative easing that drove risk assets up after the Great Financial Crisis ("GFC") ended. While our positioning means we have not kept up with indices in the first few weeks of the year, we expect volatility to re-emerge and are well positioned to take advantage of sell-offs, especially when good stocks are driven down in correlation trades or caught up in an ETF or quantitative rout. This is essential. To generate returns in a volatile market environment it is necessary to be a liquidity provider at times of market stress and euphoria.

Being a liquidity provider is the essence of our investment philosophy. We have applied it since our earliest days as investors, picking off securities from forced sellers in post-reorg equities and demutualizations; short selling through the tech bubble; or buying during periods of panic over the past decade when we believed a “Fed put” mitigated downside market risk.

Likewise, as the QE era ends and a new one begins, we are reminded that new markets bring new opportunities. Asset class allocation and single security selection drove our strong returns over the past decade, but so did new areas of opportunity coming out of the GFC. We added competencies in investing and risk management – deep analysis of global governments, regulations, and central bank behaviors – by hiring outside firms and later bringing this analytical capability in-house. This effort was designed initially to protect the portfolio from macro risks, but we discovered quickly that in a QE-driven world government intervention was itself an “event,” and this insight led us to new and profitable opportunities. Whether starting a structured credit business; going long the banks and autos after analyzing the stress tests in April 2009; plowing half a billion dollars into Greek government bonds in August 2012; entering Japanese markets for the first time in 2013 to capitalize on Abenomics; investing in Argentine bonds in 2014; or quickly getting long energy credit in February 2016 when we determined China was in better shape than the consensus feared, an augmented analytical skillset gave us new tools to make money.

To generate superior risk-adjusted returns in 2019 in a world of algorithmic and passively-dominated markets, classic stock picking is as relevant as ever – if applied with new lenses. Machine-driven markets are inherently more volatile. Machines price everything. Our advantage is in deeply valuing securities by being more nimble in processing information to exploit the imbalances and excesses in markets.

Event-driven, catalyst-oriented investing across asset classes remains the core of what we do. There are four things we can do to create alpha that machines cannot: 1) single name short selling; 2) activism; 3) opportunistic credit; and 4) identifying mispriced intrinsic value securities. These four areas have been constant profit centers for us – with activism

generating a 300% return since 2011, and single name shorts delivering profits and alpha in each of the past two years. We plan to increase focus on these areas and have developed a new team structure to better support our fundamental research process with increased sector, factor, governance, capital markets, and data expertise.

We have a stable business that we invest in continuously. Since 2016, we have developed a robust data science and analytics team, hired a macroeconomic specialist, created a stand-alone short selling team, and brought on an experienced Managing Director to focus on refining our investment process by marrying fundamentals, systematic inputs, risk and positioning. These new views, combined with our core skill set, give us the formula we need to invest successfully in the upcoming cycle.

Quarterly Results

Set forth below are our results through December 31, 2018:

	Third Point Offshore Ltd.	S&P 500
2018 Fourth Quarter Performance	-11.9%	-13.5%
2018 Year-to-Date Performance*	-11.3%	-4.4%
Annualized Return Since Inception**	14.4%	7.6%

*Through December 31, 2018. **Return from inception, December 1996 for TP Offshore and S&P 500.

2019 Macro Investment Outlook

Over the past few weeks, investors have frequently asked whether we think the QE bull market can continue, or if last year was the end of an era. Our reduction in exposures is driven by our view that it was the latter and we have gone from a QE/green light world to a QT/yellow light regime, where volatility will drive investment opportunities.

Our long-standing view was that the business cycle could continue if the Fed was reasonable in its approach to rate normalization. To our surprise, the Fed signaled a continued need for hikes late in 2018, despite increasing evidence that non-US growth was weakening, and

inflationary pressures were muted. Slowing global growth off a high level (a “slowdown”), which described conditions in the first half of 2018, is generally digestible for the equity market. However, once growth slows to a below-trend pace (a “contraction”), equity markets tend to drawdown, as we saw in the Fourth Quarter. In December, a plunge in previously-resilient US business surveys, exemplified by a drop in the ISM new orders index by a magnitude typically associated only with recessions, moved growth into a contraction zone. Coupled with a Fed intent on raising rates and letting its balance sheet run off on auto-pilot, this raised question marks about the US economy's durability and prompted a correction in markets.

At the low in late December with a drawdown of ~20%, the S&P500 was pricing high odds of a recession. One of the major catalysts for the market's rebound was Fed Chairman Powell's about-face at the January FOMC press conference, which was remarkably dovish. The Fed curtailed the downside tail by effectively shifting to a neutral stance. The market's euphoria in January was simply a recognition that fears of an irrational Fed driving the US economy into recession were off-base.

The equity market's path from here will be driven primarily by the trajectory of global growth. While the data continues to weaken, we are watching for signs of a bottom over the next few months. The Global PMI already has retraced more than 80% of its rally off the 2016 low. While Chinese policy is hard to read, there are signs that the government's myriad policy initiatives (e.g., accelerated local government bond issuance, tax cuts, RRR cuts, innovative monetary policy tools) will stabilize growth in the First Quarter. The sharp tightening of US financial conditions coupled with the effects of the government shutdown mean that US growth should bottom in the First Quarter. The Euro Area has been weak, but reversal of one-offs, fiscal stimulus, a lower oil price, and export improvement due to China stimulus mean the bottom in Euro Area growth is not far off. Since the S&P500 has now retraced more than half of the decline in the Fourth Quarter of 2018, seeing evidence of a bottom in global growth will be important to determine whether we are in green or red territory from here.

SNAPSHOT

We plan to share some thoughts on market and asset class themes we are spending time analyzing via a “snapshot” in these quarterly letters. Our first piece, written by Head of Credit Ian Wallace, is on liquidity and the credit markets.

Liquidity Matters: The State of the Credit Markets

“Liquidity is free for those who can afford it, very expensive for those that can’t.”

Another topic we discuss frequently with investors is the state of the credit markets, near the ten-year anniversary of the nadir of the GFC. Today, the non-subprime mortgage market functions smoothly (albeit with the GSE’s still in conservatorship), US banks have deleveraged (though saddled with regulation), employment has increased, growth has been slow but relatively steady, and equities have delivered a QE-filled bonanza.

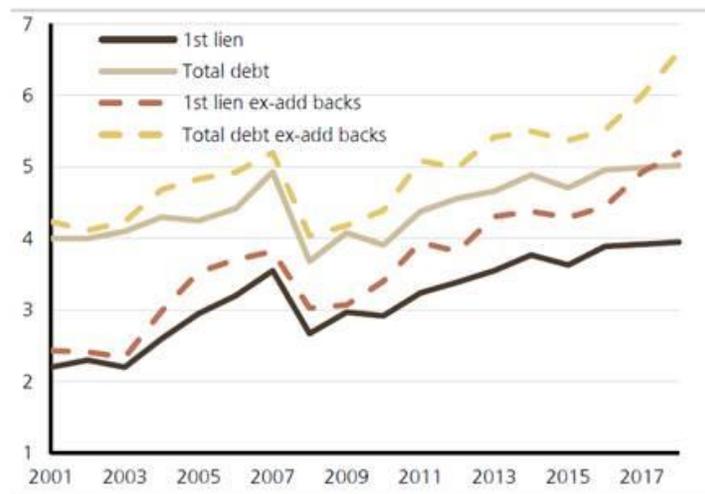
Credit creation has consistently outstripped GDP growth, leading to record corporate debt levels; however, debt service – the measure of the liquidity cushion – is well within historical ranges. One of the learnings of the GFC was that debt levels don’t really matter; debt service and liquidity do. Debt levels were completely irrelevant until liquidity dried up and the market came crashing down. Liquidity has been ample thanks to years of QE driving low rates, but we have shifted to a backdrop of QT. Debt service measures will naturally be stretched as rates rise or the economy slows, and it is possible we see both simultaneously. The violent sell-off in the Fourth Quarter driven by fears of this combination emerging was a sneak preview, and it hit highly leveraged companies particularly hard.

While conditions have generally calmed, we see unseemly bulges and liquidity issues in two areas of credit: BBBs and leveraged loans. BBBs, the lowest rated investment grade category, stand at \$2 trillion, twice the size of the high-yield market. We aren’t especially worried about the liquidity of these BBB issuers in particular – the liquidity risk lies in the market structure of the investment grade credit market. Widespread downgrades can lead to forced selling by investment grade managers. There are several BBB issuers that by

themselves would be over 2% of the high-yield market, which will swamp the buckets of index high-yield buyers. Providing liquidity to these forced sellers has historically been a great business for Third Point. While the “BBB Bulge” has been well-flagged, investing at the tipping point is what our firm is designed to do.

Leveraged loans feel like a historical analog to one of the villains of the GFC - subprime mortgages. Subprime represented a mutation of the mortgage market and performed very differently from prime mortgages under financial stress, ultimately helping to upend the capital markets. We have seen the leveraged loan market undergo a similar mutation. In 2018, there was strong demand for floating rate debt, so we saw issuers shift from high yield bonds to leveraged loans. Unfortunately, these were leveraged loans in name only – as the graph below shows, first lien leverage excluding add backs has increased over time from 3x to north of 5x today, a peak.

Figure 4: Estimated total vs. 1st lien leverage on new leveraged loans (Debt to EBITDA)



Source: Covenant Review, S&P LCD, UBS

That is no longer a “first lien” bank loan – that is a junk bond hybrid that is likely to experience junk bond style default and recovery rates as their obligors face liquidity issues. These mutant leveraged loans have been poured into CLO structures and even ETFs, sold on the assumption of historical leverage loan performance when in fact like subprime mortgages, they will behave quite differently. This is obviously going to impact returns for the junior portions of CLO structures. While the CLOs themselves have term financing, so

they are a robust holder (theoretically with no need for liquidity), here the structure incents managers to sell for purely price reasons. In fact, we saw CLOs selling even during the relatively quick period of credit weakness in 2016 and we expect to see that again once we have a more sustained period of volatility.

Going back to the GFC, it was the methodology used for the Supervisory Capital Assessment Program (“SCAP”) that neutralized the worst fears about banks and convinced us to get long early in 2009. The key to SCAP was that solvency doesn’t matter in the short run – in fact, with enough liquidity, solvency never matters. A dangerous road to be sure, but the key to understanding both what was the trigger and, ultimately, the solution for the GFC.

Credit analysis is a function of solvency – is the sum of assets greater than or less than liabilities – and liquidity – access to cash to meet current obligations. Solvency is hard to measure; the liability side of the equation is obvious (the quantum of dollars owed), but the asset side is complex, ever changing and even subject to (often creative) interpretation. Liquidity, by contrast, is simple. You either have the cash to meet your obligations or you do not. Those obligations can be ordinary course of business obligations, structural needs, or even emotional impulses.

Looking out broadly at the credit markets, while the quantum of debt is high, we don’t see the ingredients for another GFC. Although there is less gas in the tank to address a future crisis, there is belief that the Fed knows how to handle a crisis and in markets, belief is everything. We are not furiously preparing for a 100-year flood that may never come. That said, we see an underlying market structure where more than 50% of credit assets are held by entities that offer daily liquidity and 80% of the underlying assets do not trade on a daily basis. This sets up one of the oldest recipes in the book for dislocation, an asset/liability mismatch. While the Fourth Quarter was painful, it again demonstrated the value of being positioned as a liquidity provider.

Structured Credit

As we discussed in our opening section of this letter, market transitions and dislocations have provided us with some of our best opportunities throughout our history by opening our investment universe to adjacent strategies. This has been the most evident in our structured credit effort, which we launched in Q1 2009. We treat this asset class as we do all others, focusing on events in areas that we think are mispriced, providing liquidity when others will not or cannot, and integrating our team approach to develop shared views among the structured credit, corporate credit, macro, and financial sector teams. Exposure to the strategy peaked in 2016 at ~24% of AUM. Like our approach to corporate credit, we can vary exposure levels according to the opportunity set and look for “fat pitches” rather than over-allocated markets. While our average exposure last year was ~7.5%, small by historical standards, structured credit was a top performer for us, generating a RoA of 8.1% and beating the HFN Mortgages index by 6%.

In 2018, we focused on short-duration assets where we could monetize the strengthening US consumer. We also created an active partnership with some investment banks to purchase residential mortgages and consumer loans to create our own securitizations. We priced over 25 of these deals in 2018. We also generated profit by minimizing losses, primarily by staying away from CLOs, which hurt many of our peers last year.

We expect to grow our structured credit exposure in 2019. We are excited about the asset class generally as we expect that further deregulation will lead to new product opportunities. Although we are later in the credit cycle, we believe that the next recession will start in corporates before moving to the consumer, leaving room to maneuver if markets get trickier. We are focused on the credit-constrained consumer who did not participate in financial easing over the past ten years and did better on a risk-adjusted basis during the crisis. We are continuing to find investment opportunities in residential mortgages from primary mortgages to home equity loans, partnering with lenders to extend credit to borrowers. Finally, we are expanding into consumer credit opportunities from credit cards to point of sale commerce transactions.

Position Updates

We expect each of our core active positions to generate profits this year through events that we expect will unlock value or as recent catalysts unfold. The results of these positions should have a substantial impact on performance and an update on each position is below.

Baxter International

Baxter remains the firm's largest position and Third Point Partner and Head of Equities Munib Islam serves on the Board of Directors. In past quarterly letters, we detailed our initial investment thesis and highlighted the extraordinary transformation that CEO Joe Almeida has overseen at the company since joining at the end of 2015. Baxter has generated more profits than any investment in our history. We have used open windows to maintain the size of the position as it has grown through appreciation, the best reason to have to right-size an investment. Today, we remain enthusiastic about the direction of Baxter and the investment opportunity ahead. As a framework, we use the three major growth vectors that Joe outlined during his first investor presentation in January 2016: 1) operational excellence; 2) capital allocation; and 3) portfolio optimization.

Operational Excellence: Without question, Baxter has clearly improved operational efficiency over the last three years. The company just reported FY 2018 results, achieving operating margins of 17.4%. And the company expects to extract further efficiencies over the next 5 years, targeting 2023 operating margins of ~23-24%.

Capital Allocation: Since January 2016, Baxter has returned \$4 billion back to shareholders through share repurchases and dividends, and used another \$1 billion for business development purposes, acquiring the generic injectable pharmaceutical manufacturer Claris in 2017 and two approved products from Mallinckrodt in 2018. Despite this activity, Baxter remains underlevered versus peers, with a net debt to EBITDA ratio below 1.0x vs the group at 2.0-2.5x. The balance sheet flexibility should allow Baxter to continue targeted business development efforts, although we fully expect the company to remain disciplined in its efforts.

Portfolio Optimization: Portfolio optimization at Baxter can be divided into two areas. Over the past three years, the company exerted more discipline over its existing portfolio, voluntarily walking away from low or negative margin contract business. Further, Baxter refined its R&D efforts to focus on high value strategic projects. Over the next 12-24 months, Baxter expects to start reaping the fruits of its labor with several new product launches including Spectrum IQ and Evo IQ pumps, and new generic injectable drugs. The innovation cycle should serve to drive revenue growth acceleration and contribute positively to underlying operating margins.

We retain high conviction in Baxter based on expectations of continued development across the three vectors that should sustain earnings growth and free cash flow generation over the next several years. We have confidence that Joe and his management team will continue to execute on his strategy, driving Baxter forward and delivering substantial returns for its investors.

Campbell Soup

We invested in Campbell in the Second Quarter of 2018. The company was at a crossroads. Earnings were going the wrong way, the balance sheet was over-levered, and Campbell's long-time CEO had just left, with no successor in place. It was clear to us that the company's problems were fixable, but only with real change at the board and management level.

We fought a proxy war to help effect that change and agreed to a settlement in November that should set the stage for Campbell's turnaround. The terms of our settlement included a mix of board representation (two directors now and one mutually agreeable director later) and formal outside-in engagement (input on the CEO and regular access to the board and C-suite).

Once the proxy contest ended, the dynamic between Third Point and the company changed immediately, and we got to work. Within days, two Third Point director nominees, Sarah Hofstetter and Kurt Schmidt, were added to the board. Sarah has critical marketing experience and Kurt brings a wealth of packaged food operational expertise to the Board.

We also worked cooperatively with Campbell to help recruit Mark Clouse as its new Chief Executive Officer. Mark is a seasoned packaged food executive and brings the right set of skills to lead the company at this critical time. He started at Campbell on January 22, and we are excited to work with him and the company's board to repair the balance sheet, execute an operational turnaround of the business, and explore all options to create long-term value for shareholders. With Mark at the helm and change at the board level following years of underperformance, we are confident Campbell has a good long-term case for value creation.

Nestlé SA

We invested in Nestlé in the Second Quarter of 2017. At the time, we saw a great company that had become complacent after years of success, and an opportunity to help its new CEO Mark Schneider reposition the company for long-term success. We offered a path forward highlighting opportunities to improve financial performance, capital efficiency, and portfolio management, and Nestlé responded by announcing a series of financial targets that incorporated many of our suggestions.

Over the past 18 months, we have been encouraged by the progress the organization has made against those targets. Organic sales growth and operating margins have sequentially improved. More than CHF 11 billion of capital has been returned to shareholders through buybacks, and management has smartly decided to accelerate this program. Management has also begun divesting non-core assets (e.g., U.S. confectionery, Gerber life insurance) and recycling the proceeds into M&A (e.g. Starbucks packaged coffee business). The recently announced decision to explore strategic alternatives for the company's Herta charcuterie businesses, after announcing a strategic review of its skin health business in September, was another important step forward. We believe 2018 was a pivotal year for Nestlé, one that not only returned the business to robust double-digit EPS growth, but also laid the foundation for similarly strong performance over the next two years and the potential for more than CHF 5.00 of EPS in 2020.

We believe Nestlé can sustain this new momentum beyond 2020, as the company continues to sharpen its strategy, better align its portfolio around key categories, and improve its

organization to become more agile. Changing a company as large and complex as Nestlé was always going to take time, but it's becoming increasingly clear that real change is underway in Vevey. We remain confident in Mr. Schneider's leadership and the path to create value over time and remain committed to constructively engaging with the Board and management to help Nestlé realize even more of its vast potential.

United Technologies Corp.

We are pleased that the Board of Directors decided to split United Technologies Corp. ("UTC") into three separate, focused companies. Unfortunately, the initial announcement caused confusion and created uncertainty about the free cash flow generation of newly-acquired Rockwell Collins. We believe management has largely rectified this by shortening the time to separation and providing better disclosure on Rockwell Collins's free cash flow generation. We have urged management to quantify the elimination of stranded costs and explore a highly value-creating transaction for Carrier, and believe they are receptive to these suggestions.

Despite the separation announcement, UTC's sum-of-the-parts discount has continued to widen and the valuation gap versus UTC's closest multi-industry peer, Honeywell International, has reached a new 10-year high. The coming separation will shine a greater spotlight on the large valuation gap to UTC's pure-play peers. During the separation process, we expect the management team to highlight UTC's asset quality and to increase transparency around Pratt & Whitney's very significant multi-year inflection in free cash flow generation.

Sincerely,

Third Point LLC

The information contained herein is being provided to the investors in Third Point Offshore Fund, Ltd. ("Offshore Fund"), Third Point Partners L.P. ("Partners"), and Third Point Partners Qualified L.P. ("Partners Qualified") (collectively, the "Funds"). The Offshore Fund is a feeder fund to the Third Point Offshore Master Fund L.P. in a master-feeder structure. Third Point LLC ("Third Point"), an SEC registered investment adviser, is the Investment Manager to the Funds.

All performance results are based on the NAV of fee paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. While performance allocations are accrued monthly, they are deducted from investor balances only annually or upon withdrawal. The performance results represent fund-level returns, and are not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. All performance results are estimates and should not be regarded as final until audited financial statements are issued.

All P&L or performance results are based on the net asset value of fee-paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. The performance above represents fund-level returns, and is not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. All performance results are estimates and should not be regarded as final until audited financial statements are issued.

While the performances of the Funds have been compared here with the performance of a well-known and widely recognized index, the index has not been selected to represent an appropriate benchmark for the Funds whose holdings, performance and volatility may differ significantly from the securities that comprise the index. Investors cannot invest directly in an index (although one can invest in an index fund designed to closely track such index).

Past performance is not necessarily indicative of future results. All information provided herein is for informational purposes only and should not be deemed as a recommendation to buy or sell securities. All investments involve risk including the loss of principal. This transmission is confidential and may not be redistributed without the express written consent of Third Point LLC and does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum.

Specific companies or securities shown in this presentation are meant to demonstrate Third Point's investment style and the types of industries and instruments in which we invest and are not selected based on past performance. The analyses and conclusions of Third Point contained in this presentation include certain statements, assumptions, estimates and projections that reflect various assumptions by Third Point concerning anticipated results that are inherently subject to significant economic, competitive, and other uncertainties and contingencies and have been included solely for illustrative purposes. No representations express or implied, are made as to the accuracy or completeness of such statements, assumptions, estimates or projections or with respect to any other materials herein. Third Point may buy, sell, cover or otherwise change the nature, form or amount of its investments, including any investments identified in this letter, without further notice and in Third Point's sole discretion and for any reason. Third Point hereby disclaims any duty to update any information in this letter.

Information provided herein, or otherwise provided with respect to a potential investment in the Funds, may constitute non-public information regarding Third Point Offshore Investors Limited, a feeder fund listed on the London Stock Exchange, or Third Point Reinsurance Ltd., and accordingly dealing or trading in the shares of either listed instrument on the basis of such information may violate securities laws in the United Kingdom, United States and elsewhere.