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July 26, 2019

Second Quarter 2019 Investor Letter

In our 2018 year-end Investor Letter, we outlined our 2019 plans: to generate alpha by concentrating on specialized strategies where we believe we have an edge and to reduce market risk via lower net exposures and less beta in the portfolio. During the first half of this year, we primarily focused on event-driven strategies, including activist investing. We also grew our concentrated book of single name shorts and increased some sector and market hedges to dampen volatility and market correlation. Our nets have averaged ~40% this year. We believe that this positioning, late in the economic cycle, allows us to take advantage of market corrections and be poised to shift into credit as opportunities emerge. Of course, it is impossible to predict when the credit cycle will turn. However, given current debt levels throughout the system and the potential for an economic slowdown in the next few years - although we see nothing on the immediate horizon - we believe flexible positioning is appropriate.

Given the fund's lower net exposure this year, we are pleased that Third Point's Offshore Fund gained +3.8%[1] during the Second Quarter of 2019 and returned +13.1% through June 30, 2019. For the first half of 2019, our RoA for the long/short equities book was +26.4% and equities contributed over 80% of our total net P&L. These returns were primarily driven by active investments including Sotheby's, which agreed to sell itself for a significant premium in June, and a new position in Sony, which was the largest contributor to profits in Q2. In the first half of this year, active engagement positions in Baxter, Nestlé, United Technologies, Campbell, Sony, and Sotheby's comprised six of our seven top profit contributors. Similarly, four of our five top performing positions in Q2 were such names. Credit also contributed positive returns for Q2 and for the year overall, led by a position in the unsecured debt of PG&E. Each of our credit strategies – corporate credit, sovereign credit, and asset-backed securities – generated gains.

[1] Net performance fee based on modified high water mark calculation.

U.S. equity markets have been strong this year despite weak global growth and low overall earnings growth. The strength seems largely driven by the dovish pivot in Fed policy from targeting higher neutral rates to focusing on low inflation and trade war concerns to initiate a rate cutting cycle. After some initial hiccups early in his tenure, the "Bernanke Put" baton that was handed to Janet Yellen seems now to have been passed to Fed Chair Powell. In Europe, the ECB has initiated efforts this year to stimulate Eurozone growth by maintaining rates at sub-zero levels and renewing a program of cheap bank loans, rather than tightening as previously forecast. In Asia, China has stimulated via credit and fiscal policy and may have room to stimulate further.

We expect growth to stabilize for the rest of the year, partially because manufacturing activity – the main driver of global GDP swings – appears likely to be overshooting on the downside, driven by inventory liquidation. Financial conditions have eased meaningfully and there are few imbalances in the U.S. economy. Thus, while we may be "late cycle", we do not see any evidence of an immediate economic downturn. We continue to closely monitor the health of the U.S. consumer, given its outsized contribution to GDP, and second order effects from an inverted yield curve.

Our equity book has the highest proportion of idiosyncratic to other types of risk (market, sector, factor, etc.) in over five years, and our nets are at the low to mid-level of our historical exposure ranges. With this portfolio composition, we believe we are well-positioned to generate alpha while navigating the growth slowdown versus fiscal easing paradigm that should drive markets again during Q3.

Quarterly Results

Set forth below are our results through June 30, 2019:

	Third Point Offshore Ltd.	CS HF Event Driven Index	MSCI World Index	S&P 500 (Total Return)
2019 Second Quarter Performance	3.8%	2.4%	4.2%	4.3%
2019 Year-to-Date Performance*	13.1%	7.5%	17.4%	18.5%
Annualized Return Since Inception**	14.7%	7.0%	6.8%	8.2%

*Through June 30, 2019. **Return from inception, December 1996 for TP Offshore, CS Hedge Fund Event Driven Index, MSCI World Index, and S&P 500 (TR).

Measuring Quality Returns

Over the past few years, we have contemplated how to best benchmark Third Point's performance in a world of increased complexity and choice for allocators. These reflections and interactions with investors have resulted in more robust internal methods to evaluate and compare our performance.

There is no set formula to measure the quality of investment returns. Our multi-asset, multi-sector idea-driven approach, designed to pivot quickly to generate high risk-adjusted and uncorrelated returns over a cycle, makes the exercise more difficult. The S&P 500 is an insufficient benchmark for the task. Today, we evaluate our return, beta, correlation, and risk profile across several indices and over a long period of time. For an index comparison, we use the MSCI World Index, which is a broad-based global equity index across 23 developed market countries. It covers ~85% of the free float-adjusted market capitalization in each country and excludes emerging markets. Its market cap is roughly divided into approximately 65% North America, 23% Europe, and Asia/Other making up the rest. Since 2009, Third Point's global equity gross breakdown has been roughly 75% North America, 15% Europe, and 10% ROW so we believe this index better represents our typical portfolio composition.

From a third-party index perspective, we most closely track Event Driven indices for performance comparison and evaluation. The category includes risk arbitrage, distressed, special situations, restructuring, and select high-yield investing strategies that mirror some of what we do, although most are imperfect due to 'investability', completeness of reporting, and survivorship bias. From a credit perspective, we leverage select structured credit and high-yield indices to itemize correlation, beta, Sharpe ratio, and other related risk measurements.

Beyond creating composite indices, we are developing internal methods to evaluate our hit rate in individual positions, sectors, asset classes, and in the portfolio as a whole. One exercise we execute involves evaluating Third Point's actual net asset class quarterly exposures versus a set of benchmarks. While not purely scientific, this evaluation allows us to internally assess the success of our security selection process within each asset class as well as intra-quarter tactical asset allocation over time, not in a three or six-month window.

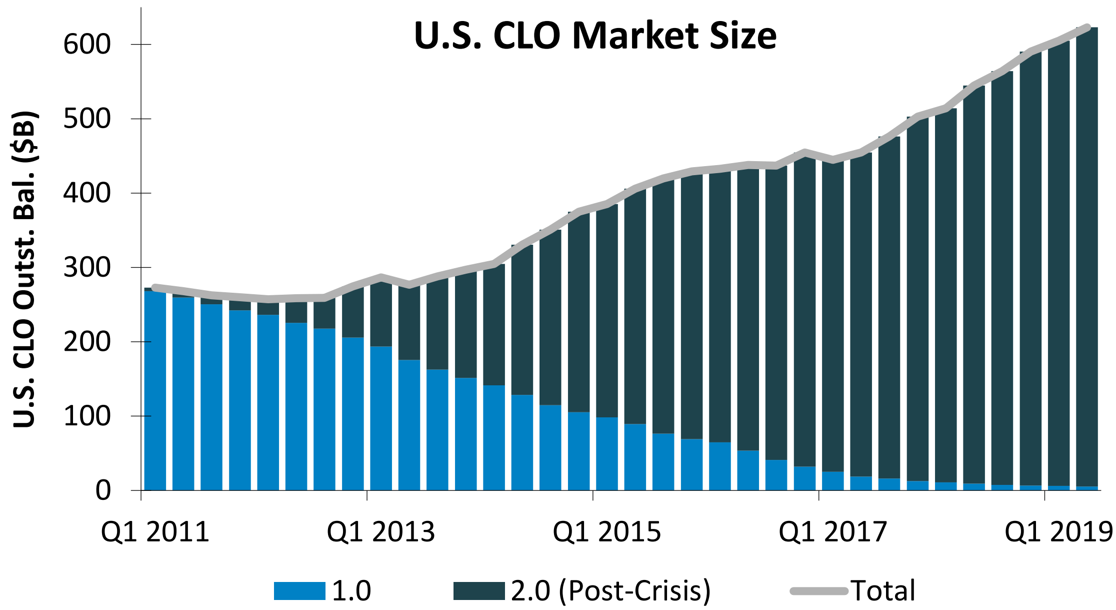
Our goal is to generate alpha through security and asset class selection. We are among the largest investors in Third Point and share your expectations for high risk-adjusted returns.

<u>Corporate and Structured Credit Update</u>

A widening in floating rate assets like Collateralized Loan Obligation liabilities, despite the lack of current credit concerns, has been an effect of the decline in interest rates this year. Third Point has taken advantage of this shift as active traders of fixed and floating rate assets. On the fixed rate side, we have benefited from strong demand, capitalizing on it as we access the securitization markets for term financing. On the floating rate side, we are constructive on CLO liabilities with shorter duration given the recent spread widening. As interest in CLOs has increased with the tremendous growth of the asset class, we thought we would share our perspective on the current CLO market and where we see opportunity.

Substantial growth in CLOs

Initially fueled by investor demand for floating rate investments in 2018, high-yield issuance shifted from bonds to leveraged loans to meet CLO demand. 2018 CLO issuance was close to $127 billion in 237 deals. CLO growth has been strong in 2019, although demand for floating rate product has waned in the face of lower rates. The loan market is currently $1 trillion outstanding, similar in size to the high-yield bond market. In the past five years, the number of CLO managers has grown from a handful to almost 80. Their business model typically calls for issuing two to four CLOs per year, pressuring a relatively narrow buyer base.



Source: Intex, Wells Fargo Securities

Misconceptions and Structural Changes in the CLO Market

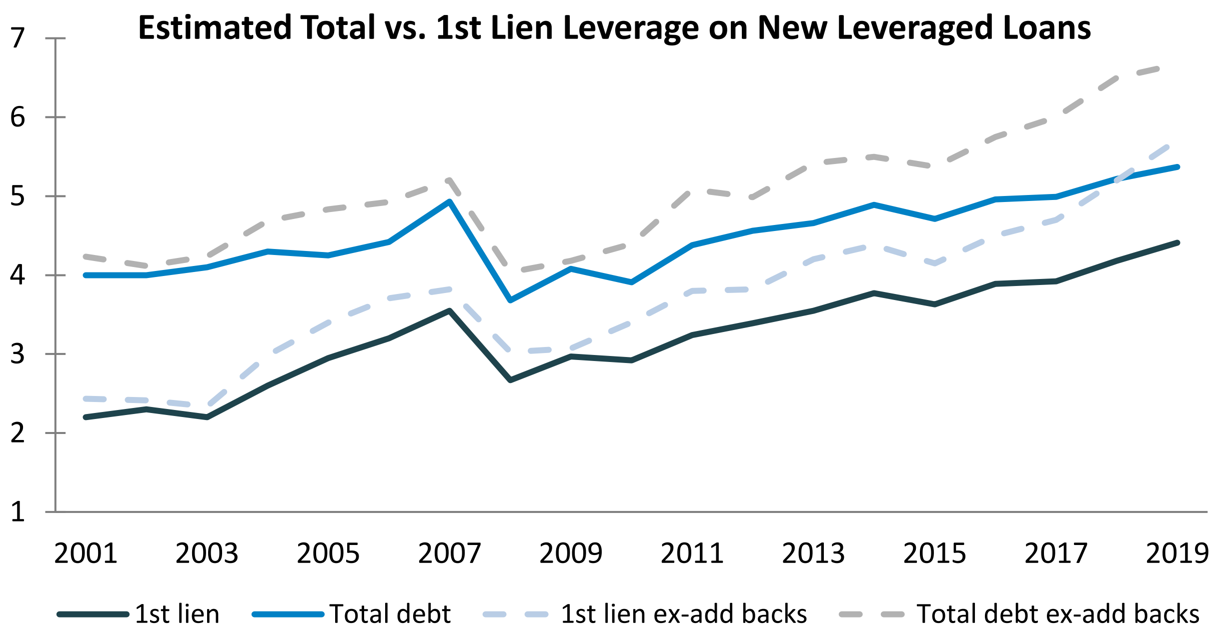
Collateralized loan obligations are often mischaracterized as the "next so-called subprime CDO", but the underlying assets, current structure, and market liquidity are all different. CLO portfolios are predominately institutional leveraged loans with a series of collateral and structural covenants that are designed to mitigate credit impairments to senior cashflows in a stressed environment. From 1996 to 2014, only 1.1% of CLO debt experienced principal impairment despite high mark to market volatility.[2] CDOs represent a broad category of structures that can be backed by residential or commercial mortgages, corporate bonds, or loans. CLO structures are similar to CDOs but post-2009 they require higher credit enhancement levels to provide more protection to the rate debt. Subprime mortgage-backed CDOs were the nexus of the financial crisis because the underlying securities were highly levered to consumers unable to pay off their loans who participated in or were duped by schemes that have been well-documented over the past decade. Current regulation in the

[2] Moody's Investor Service based on 5176 CLO rated debt tranches.

mortgage market has restricted this kind of easy access to credit. In contrast, the underlying CLO assets are large debt issuances from corporations with an active new issue and secondary market.

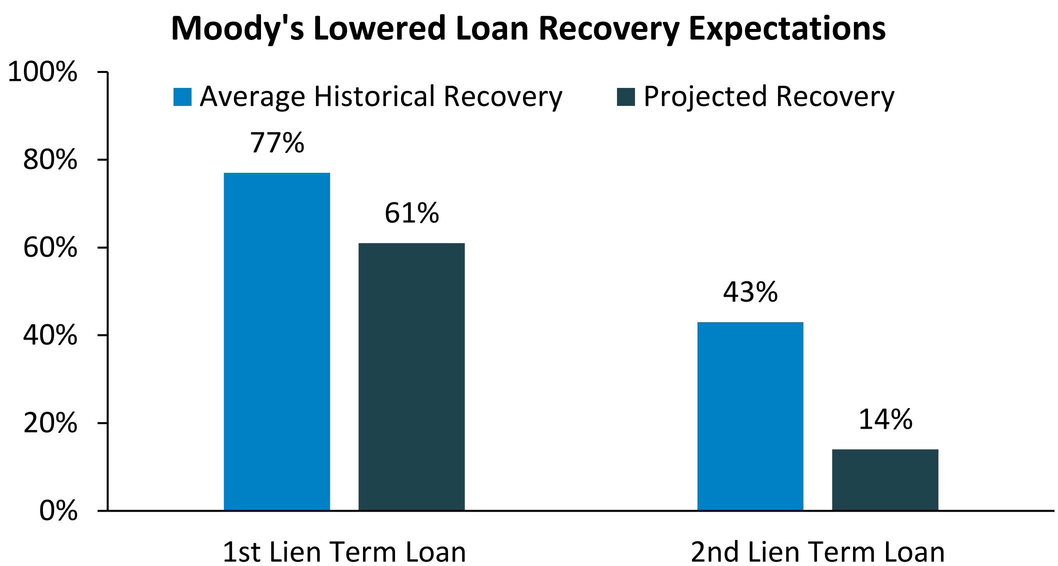
Risks in the Sector

Underlying leveraged loan quality is much worse than last cycle because loans represent a much larger portion of the typical corporate capital structure. As a result, the current loan risk looks more like a combination of pre-crisis loan and bond risk.



Source: Covenant Review, S&P LCD, UBS

CLOs hold about 65% of all leveraged loans and the overlap on specific names can be close to 70%. While higher levels of leverage imply both higher levels of defaults and lower recoveries, we do believe that concerns regarding covenant-lite loans are at least partially misplaced. We believe covenant-lite loans will *lower the overall default rate but result in higher loan loss severities* in a stressed credit environment. Weak covenants can give the issuer the flexibility to delay and sometimes avoid defaults, albeit likely at the cost of worse recovery in the actual event of default. Given this potential scenario, we prefer mezzanine CLO debt over CLO equity, where there are higher yields, credit support, and coverage ratios that can de-lever the structure. These shorter duration debt profiles will enable us to stay flexible in the asset class when credit losses increase.

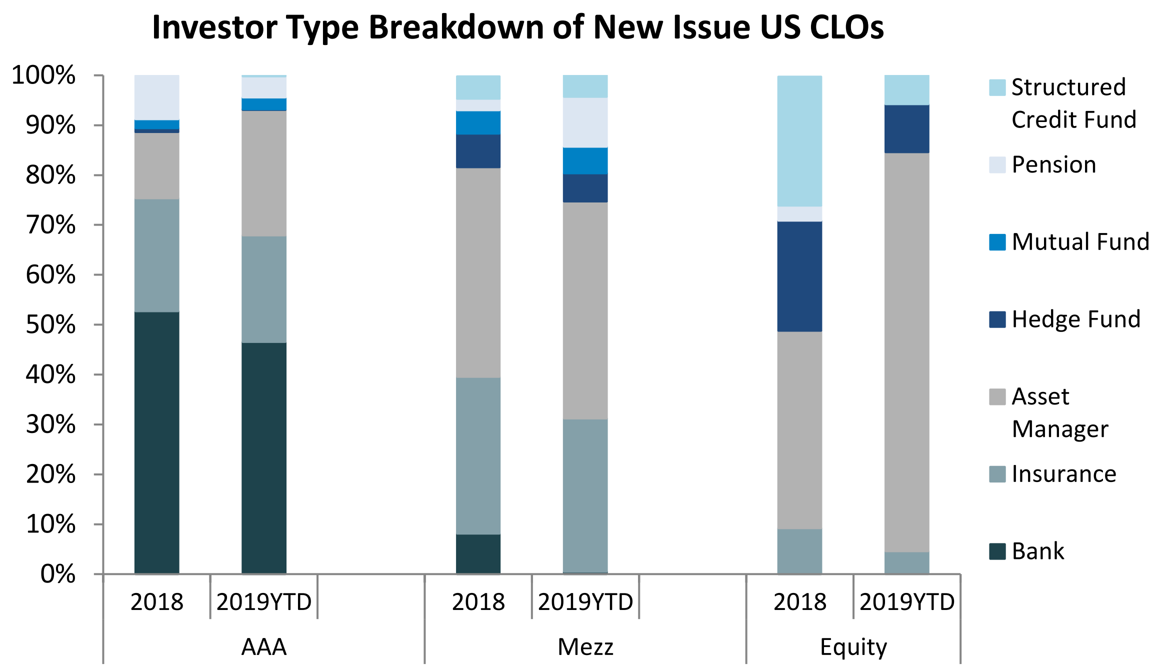


Source: Citi Research, Moody's as of 6/30/2018

Current Opportunities in CLO Liabilities

Remarkably, tighter spreads have meant that equity or first loss tranches are actually being placed at lower yields than the more senior debt in the structure. Managers continue to do deals for the fee stream but have been forced to retain their own equity or first loss tranches at single digit yields.

Market liquidity and structure have evolved since the selloff in early 2016. Many funds raised capital to satisfy risk retention requirements to own 5% of a CLO's market value for five years. In 2017, the risk retention requirement was removed for CLOs, and these funds with longer investment horizons purchased CLO debt and equity. As a result, in Q4 2018, a period of increased volatility, there was more liquidity for CLOs than in previous similar periods. We have focused on shorter duration profiles where the manager has a shorter reinvestment period and the structure will have to amortize more quickly.



Source: Citi Research as of 5/31/2019

Prospective Opportunities in Liabilities and Assets

While the current cycle may be extended by the Fed's activities, the deteriorating underlying credit quality and tiering of CLO managers should materialize, creating investment opportunities in loans and longer duration CLO debt and equity. CLOs are considered term financing structures but, in periods of credit concern, CLO managers are tested. In early 2016, investors scrutinized CLO managers with a high concentration in oil and gas credits. Paired with a broader redemption cycle, these credit prices fell quickly, and CLOs sold these names. We became a liquidity provider for these CLO sellers.

As we look across the spectrum of assets and through cycles, there will be other industry sectors that will experience periods of elevated credit losses and impaired liquidity. Current CLO equity returns have been anemic due to a narrowing arbitrage between loan and CLO debt spreads. In a stressed environment, we are constructive on CLO equity where the debt financing is locked in, and stronger CLO managers will be able to capitalize on wider spread loans. Given the collaboration between our corporate and structured credit teams, we are well positioned to invest across the CLO capital structure and in the underlying assets.

Creation of Co-Chief Investment Officer Title

I am pleased to announce that Munib Islam will join me as Co-CIO of Third Point's funds. This title largely recognizes a role that Munib has played for some time in working with me to manage the equity team and investment portfolio while overseeing research activities, talent development, and risk.

Munib joined Third Point as a summer intern in 2003 after answering an ad I placed on Stanford Business School's job bulletin board. After graduation, Munib returned to Third Point and spent the next four years specializing in European equity investments. After a stint at Highbridge, Munib rejoined the firm in 2011 as Head of Equity Research. Over the past eight years, he has been responsible for important initiatives including improving our risk processes, evolving portfolio construction strategies, and working closely with me on our largest activist investments including Dow, Baxter, Nestlé, and Sony. Munib served on the Baxter board for four years and helped lead the company's transformation, making Baxter our most profitable position ever.

I am fortunate to have found a partner like Munib who complements me and challenges my thinking on a variety of issues. He personifies our shared values of continuous individual and institutional improvement and has made meaningful contributions to cultivating talent and improving processes. Most importantly, Munib shares my passion for investing with creativity and my enthusiasm for the stock selection process. Congratulations to Munib on this well-deserved recognition.

Dan

Sincerely,

Third Point LLC

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