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October 22, 2013

Third Quarter 2013 Investor Letter

Review and Outlook

During the third quarter, Third Point generated strong performance in line with the S&P with half the exposure and significantly less volatility. As several investments hit their price targets in July, we scaled back a number of positions including two-thirds of our stake in Yahoo!. These sales decreased long equity exposure, a move consistent with our growing concerns at the time about the global economy – from possible U.S. military intervention in Syria, to uncertain Fed leadership, to an impending U.S. government shutdown or debt default. In August, successful single name stock selection allowed us to generate alpha as markets fell. We have continued to find new event-driven ideas and added several significant special situations to the portfolio. We are also finding compelling new pockets of value in both corporate and structured credit.

Our "macro" Japan trade has contributed significantly to 2013 returns. As we discussed on our Q2 Investor Call and in Dan and Larry Lindsey's Wall Street Journal opinion piece[1] from June 25th, Japan is at a crossroads. The first two of Premier Abe's arrows landed on target, and inflation has risen (albeit modestly) as the monetary supply loosened. Based on our recent trips to the region, the government's resolve to enact the "third arrow" of structural reform appears intact. Despite this determination, the government remains short on specifics, which is made more worrisome by an imminent increase in the consumption tax.

If this time is to be different in Japan, significant changes to the labor market, trade arrangements, and corporate taxes must occur. As American citizens, we are intimately familiar with the challenges of implementing long-term oriented structural transformations in a short-term focused, democratically governed country. However difficult this process may be, we believe Premier Abe has the best chance in over a generation to enact the reforms to push Japan forward. If he acts on these iniatives, we will be eager buyers of additional Japanese stocks beyond our significant investment in Sony and current holdings in other Japanese companies.

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[1] http://online.wsj.com/news/articles/SB10001424127887324021104578551213361894312

Quarterly Results

Set forth below are our results through September 30th and for the year 2013:

	Third Point Offshore Fund Ltd.	S&P 500
2013 Third Quarter Performance	4.8%	5.2%
2013 Year-to-Date Performance*	18.0%	19.8%
Annualized Return Since Inception*	17.9%	6.8%

**Through September 30, 2013. ** Return from inception, December 1996 for TP Offshore Fund Ltd. and S&P 500. See disclosures on last page.*

Select Portfolio Positions

Equity Position: Nokia Corporation ("Nokia")

We purchased Nokia late in the third quarter following the announced sale of its Devices and Services ("D&S") business to Microsoft for €5.44 billion in an all-cash transaction. Expected to close in Q1 2014, the deal provides €3.8 billion for the D&S business and €1.6 billion for a 10-year non-exclusive patent licensing agreement. Once the transaction is complete, "new" Nokia will consist of the Nokia Siemens Networks ("NSN"), the HERE maps business, and a patent portfolio known as Advanced Technologies.

At our purchase price, we seized an opportunity to create new Nokia at a substantial discount to target value. The company will have approximately €8 billion of net cash when the transaction closes, and we expect a meaningful portion of the excess will be distributed to shareholders in coming quarters. Either a buyback or a special dividend is possible, which should draw additional investors to new Nokia when the cash return scenario develops following the deal closing.

The de facto spin of the D&S business leaves Nokia with a significantly different strategic and operational profile, with 40% of today's market capitalization reflected in pro forma net cash and a portfolio of three distinct businesses each generating positive free cash flow. Each of Nokia's businesses has interesting opportunities and dynamics. In the case of NSN, years of restructuring have resulted in a more profitable business, while the market structure has improved following years of consolidation ahead of a global 4G upgrade cycle. Having acquired Siemens' 50% stake in NSN this summer at a very attractive valuation, Nokia now has greater control over the operating and strategic prospects for the business. The HERE maps business has exceptional share in the built-in automotive navigation market (estimated at 80 – 90%) along with significant potential in portable navigation, an increasingly strategic area for smartphone vendors.

The Advanced Technologies intellectual property licensing business has historically operated on a net basis in commercial agreements with other smartphone vendors. Going forward, Nokia has the opportunity to realize royalty revenues on a gross basis and focus on a broader licensing program of its 10,000 patent families, which include leadership positions in 2G/3G/4G standard essential patents, as well as a broad array of non-standard essential patents. Nokia's patent portfolio has been successfully defended in court and via settlement agreements over the years, enhancing its licensing prospects and strategic value.

For years, the investment case for Nokia has centered on the prospects for the handset business with little emphasis on NSN, the maps business or the intellectual property licensing opportunity. We think the repositioning of the "new" Nokia story will take time for the broader investment community to absorb, which allows us to initiate the position at such a significant discount. Meanwhile, the prospect of a substantial one-time capital return and possible reinstatement of a regular dividend further enhance our upside potential. Nokia's commitment to return excess capital and the attractive price paid for Siemens' 50% stake in NSN suggest Nokia's leadership will remain prudent in capital allocation decisions going forward.

Event-driven situations like the Nokia/Microsoft transaction are the bread and butter of our strategy. We have recently seen an increase in the number of these opportunities and welcome the chance to populate the portfolio with them.

Credit Position: MAV

"MAV" stands for "Master Asset Vehicle", a structure that was created out of what remained of the Canadian market for asset-backed commercial paper following the 2008 financial crisis. Canadian institutions had been engaged in a trade that soured during the market downturn, going long credit risk by selling credit default swaps financed via commercial paper. Following the crisis, these investors were unable to roll their commercial paper holdings and instead were forced to give counterparties long-term bonds to secure their CDS holdings. Third Point purchased these bonds in the secondary market from forced sellers who were interested in owning commercial paper – i.e. very short duration assets – but were trapped instead with long-term holdings.

Today, MAV consists of $10 billion of outstanding bonds, segmented into A-1, A-2, B and C tranches and $10 billion of cash and liquid securities. This cash and liquid securities portfolio was originally collateral for the CDS; it generates income to service the bonds and serves as bond collateral. This portfolio should return 100 cents on the dollar at maturity. The structure is short $50 billion of CDS, which sounds like a daunting amount of risk; however, the exposure is through super senior swaps with an average of 15%

subordination – making it very unlikely our bonds will be impaired. The yield to maturity on the MAV tranches currently ranges from about 5% on the "AA" rated (by DBRS) A-1 tranche to 7.5% for the C tranche, after compressing more than 350 bps since our original purchases.

We have added to our position recently based on our expectation of higher returns from three sources. First, we expect yields to compress as the bonds "roll down" the yield curve. Second, yields should also compress as the CDS portfolio de-risks over time, the duration of the CDS shortens and tightens, and CDS matures and expires. At its creation, MAV was short more than $70 billion of risk; this figure has decreased to $50 billion today. Third, and most significantly, MAV trades at a discount to its net asset value and thus could tender for its bonds at a premium to market. Counterparties who are long CDS swaps written by MAV would like to see it go away – it is capital intensive and does not generate much income, and MAV debt holders are eager to capture this discount.

Although the process has taken longer than we originally anticipated, the requisite approvals were received early this month and we expect the tender to commence during the fourth quarter. The tender should boost our year to date returns to more than 15%, a solid risk-adjusted return from non-correlated, short dated, floating rate, investment-grade credit exposure.

Business Updates

Year-End Return of Investor Capital

Third Point's assets under management are currently $14 billion. Our increased size is primarily a result of a net annualized return since January 1, 2009 of 24% to investors in the flagship Partners fund and 29% in our slightly levered Ultra fund, which have led growth in the capital base since our initial close to new inflows in mid-2011. In an effort to moderate this growth, we have decided to give back a portion of 2013's cumulative profits to investors.

We plan to return approximately 10% of capital in our private funds. This amount will be based on year-end account balances and will include any requested redemptions from investors, the deadline for which is October 31st. The capital return will be made to all applicable investors on a *pro rata* basis, but will exclude employee investments and the investment from our listed vehicle feeder fund (which will separately pay a redemption-funded dividend).

Sincerely,

Third Point LLC

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Third Point LLC ("Third Point" or "Investment Manager") is an SEC-registered investment adviser headquartered in New York. Third Point is primarily engaged in providing discretionary investment advisory services to its proprietary private investment funds (each a "Fund" collectively, the "Funds"). Third Point's Funds currently consist of Third Point Offshore Fund, Ltd. ("TP Offshore"), Third Point Ultra Ltd., ("TP Ultra Ltd."), Third Point Partners L.P. ("TP Partners LP") and Third Point Partners Qualified L.P. Third Point also currently manages three separate accounts. The Funds and any separate accounts managed by Third Point are generally managed as a single strategy while TP Ultra Ltd. has the ability to leverage the market exposure of TP Offshore.

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 (quarterly for Third Point Ultra) 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.

The performance data presented represents that of Third Point Offshore Fund Ltd. 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. Exposure data represents that of Third Point Offshore Master Fund L.P.

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).

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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, and accordingly dealing or trading in the shares of that fund on the basis of such information may violate securities laws in the United Kingdom and elsewhere.

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