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Second Quarter 2018 Investor Letter

Review and Outlook

Slightly positive performance during the Second Quarter pushed Third Point into profitable territory for 2018. The Offshore Fund's net performance of +0.8% for the first half of this year masks strong returns in several of our largest positions, including Baxter and Netflix. At quarter-end, we had some realized losses as well as a long list of "mark-to-market" declines in names that we expect will rebound, including Nestlé, our largest consumer position, and DowDuPont. Both single name and portfolio shorts lost money during Q2. After generating strong returns in Argentine sovereign debt from 2014 to 2017, we recycled some of our realized profits into emerging markets equities, primarily Argentine banks. We overstayed our welcome in the region and took losses on those securities last quarter when EM currencies weakened dramatically. Our current modest investments in credit strategies reflect the limited opportunity set and have made little impact on performance this year.

While it is important to stay abreast of political events and shifts in economic policy, data, and forecasts, our performance is driven primarily by bottom-up, fundamental investing and only occasionally by our ability to read a macro crystal ball. Still, we spend time studying global market dynamics because, every few years, doing so gives us a chance to decisively shift positioning or asset classes when we recognize a turning point in extremely volatile markets. With this in mind, our view of the current economic backdrop is: 1) US growth will remain buoyed at a high level due to the fiscal stimulus impulse from spending increases coming into the system. Barring an escalation of trade conflict, most of the deceleration in the global manufacturing cycle is likely behind us; 2) inflation has remained stable in the first half of the year, with little sign of impending acceleration, despite a record low unemployment rate; 3) the cycle can extend longer than many people think as companies are in good shape, particularly in the US, and the consumer is strong while carrying only modest debt levels; and, 4) equities are not expensive at 16x forward earnings. We believe the risk of recession in the next year remains low and, without this concern weighing heavily on markets and with the tailwinds we have described, we believe equities should go higher but at a moderate pace.

While our case for continued favorable conditions is sound, we recognize that the calculus is more fragile than it was a year ago. The single most important factor to follow is Fed action. If the Fed is determined to "kill the patient" through aggressive intervention in the form of rate hikes then the current health of the patient is irrelevant. If the Fed continues at its current pace, it will have tightened by ~3% (or even ~4% if one includes its roll-off of quantitative easing measures) by the end of 2019. Tightening of that magnitude has almost always resulted in recession. While we believe this well-seasoned Fed understands exactly the tightrope it is walking, the risk of destructive action is not zero.

Beyond this, markets could be upset by several factors, including: 1) an escalating trade war. At this point, we are not concerned about the impact on the economy from the current tariff tit-for-tat, but an out-of-control battle could inject fear and caution into markets. More important, and less well-understood, is that a trade war threatens the margin structure of the S&P 500. Since 2000, 100% of margin expansion has been driven by manufacturers (e.g. technology, capital goods, etc.). We estimate that global value chains have driven between one-quarter and one-third of this expansion. Thus, a trade war that results in substantial increases in labor costs or even disruption to the current system could meaningfully reduce a key element of corporate profitability; 2) any growth acceleration will be less strong than in 2017 and is likely to be concentrated in the US, an unfavorable comparison to the previous year that may encourage pessimism; and, 3) increasing signs of inflation, given the tight labor market.

Growth Is Where the Value Is

Over time, we have generated returns by adjusting our exposure levels (sometimes adding decisively at market lows), by shifting our allocation to equity versus credit, and even by adding skills in new areas like sovereign and structured credit to take advantage of dislocations in those markets. Over the past five years, we have added adjacent styles to our equity investing tool kit, moving from purely an event-driven, value-based universe of stocks to include "compounders" and, increasingly, what are classically considered "growth" stocks.

The value-based argument for owning "growth" stocks (or those with high EPS growth) is that their P/E premium to the rest of the market is not especially large compared to what we have seen historically (for a dramatic illustration of this, see the 1999-2000 tech bubble). We have also discussed with investors the insight that stocks with unprecedented growth rates have defensible valuations when one extends earnings out two to three years. We are happy owning these stocks for longer periods at higher multiples and absorbing the inevitable volatility, particularly in this late cycle environment.

Of course, we have not shifted our entire portfolio to fast-growing, high-multiple securities but we see a place for the companies of tomorrow as investments alongside our classic special equity and credit situations. In a world of increasing disruption in virtually every industry, we recognize that we must continuously evolve our framework or risk being disrupted too.

Quarterly Results

Set forth below are our results through June 30, 2018:

	Third Point Offshore Ltd.	Third Point Ultra Ltd.	S&P 500
2018 Second Quarter Performance	1.5%	2.3%	3.4%
2018 Year-to-Date Performance*	0.8%	0.8%	2.6%
Annualized Return Since Inception**	15.4%	23.0%	
Comparable S&P Annualized Return**	8.1%	8.0%	

*Through June 30, 2018. **Return from inception, December 1996 for TP Offshore; from inception, May 1997 for TP Ultra.

The top five winners for the quarter were Baxter International Inc., Netflix Inc., Facebook Inc., Nestlé SA, and PayPal Holdings Inc. The top five losers for the period were NXP Semiconductors NV, SUMCO Corp., B3 SA, Lennar Corp., and Grupo Financiero Galicia SA.

Assets under management at June 30, 2018 were $17.7 billion.

New Position: PayPal

During the Second Quarter, we initiated a long position in PayPal, a $100 billion market cap online payments company that processes ~20-30% of all ecommerce transaction volume globally (ex-China), led by the excellent CEO Dan Schulman. With 237 million active accounts and 19 million merchants using the iconic PayPal checkout button online, PayPal enjoys a dominant competitive position with a 10x scale advantage relative to peers. Consumers love PayPal because it enables hassle-free, one-touch checkout across millions of online merchants; merchants love PayPal because it drives higher sales, with a checkout conversion rate of 89% – almost 2x that of credit/debit cards. We see parallels between PayPal and other best-in-class internet platforms like Netflix and Amazon: high and rising market share, untapped pricing power, and significant margin expansion potential. PayPal is in the process of evolving from a pure-play "checkout button" to a broader commerce solutions platform, expanding into adjacent verticals (e.g. in-store payments, B2B) organically and through M&A. We forecast above-consensus EPS growth driving shares to $125 within 18 months, for ~50% upside.

In the near term, we see three large incremental revenue opportunities for PayPal: (1) Venmo monetization, (2) dynamic pricing, and (3) offline payments. PayPal is just starting to monetize Venmo, a P2P (Peer to Peer) platform that has grown 25x in four years, and now accounts for ~10% of PayPal's transaction volume. PayPal launched a "Pay with Venmo" button in early 2018 for commercial transactions, as well as a new Venmo-branded debit card that consumers can use to fund commercial transactions both online and offline. We think Venmo can contribute $1 billion in incremental annual revenue for PayPal within three years. Second, PayPal is just scratching the surface on pricing power: the company recently shifted away from a "one-size-fits-all" approach in merchant contracts to a dynamic pricing model that reflects the value-add of a growing suite of products. Finally, in May 2018, PayPal announced the $2 billion acquisition of iZettle, a fast-growing provider of mobile POS systems for offline merchants in Europe and LatAm. We expect iZettle's growth to accelerate as PayPal cross-sells iZettle into its existing network of 19 million merchants. This deal takes PayPal from the world of online commerce ($3 trillion in global addressable spend) to that of offline commerce ($21 trillion in global addressable spend). We believe PayPal has multiple top-line drivers in the years ahead, with core online volume growing in the mid-20% range, latent untapped pricing power with merchants, Venmo on the cusp of monetization, and the potential to gain scale in the vast offline payments market.

In addition to faster revenue growth, we also expect more cost discipline from management. Despite revenue scale approaching that of peers, PayPal's 25% operating margin on net revenues (after transaction costs) is ~20-40 points lower than that of large-cap payments peers (e.g. Visa, Mastercard, WorldPay). Margins are an area where PayPal management has a clear opportunity to deliver, even as the company invests for the future. We think there are opportunities for expense reduction in IT (PayPal just completed a company-wide tech infrastructure overhaul), customer service (half of the company's 18,000 employees work in customer service, a function that can increasingly leverage automation), and credit servicing and collections (PayPal can reduce overhead in its consumer credit business, which was recently sold to Synchrony Financial). Moreover, PayPal's changing relationship with eBay presents opportunities on both costs and revenues. PayPal can cut substantial costs associated with its legacy eBay contract while capturing incremental revenue by signing new contracts with eBay's faster-growing competitors (PayPal's ability to work with eBay's competitors was restricted under the terms of the legacy eBay contract, which is set to expire in 2020).

PayPal is covered primarily by financial services analysts and currently trades at 37x 2018 and 31x 2019 "street" estimates which makes it appear expensive to certain investors. However, we believe that PayPal is as much a fast-growing internet company as a consumer financial services company and that a premium multiple is warranted – particularly given the company's sizable net cash position. Looking forward, our analysis suggests PayPal trades at just 18x 2020E EPS, excluding net cash. Given PayPal's multi-year revenue growth path, margin expansion opportunity, and opportunistic acquisition strategy, we expect upward earnings revisions and P/E multiple expansion as management delivers. PayPal was started in 1999 but is only three years into its life as a standalone public company. Management's new strategy – embracing partnerships with banks and networks, expanding the suite of services offered to merchants, and deploying the balance sheet through M&A and buybacks – make PayPal a very "new" company for most investors and one that is not yet well-understood.

New Equity Strategy: Special Purpose Acquisition Company

In June, Third Point announced the co-sponsorship of a special purpose acquisition company ("SPAC") targeting the Financial Technology sector. The SPAC, Far Point Acquisition Corporation ("Far Point" or the "Company"; NYSE: FPAC.U), closed its initial public offering on June 14, 2018 at $632.5 million, including full exercise of the underwriters' overallotment option, and was increased from the initial deal size due to excess demand. Far Point's co-sponsor and CEO is Tom Farley, who most recently served as President of the New York Stock Exchange ("NYSE") following its acquisition by Intercontinental Exchange (NYSE: ICE) in 2013. Prior to running the NYSE, Tom served in various roles at ICE, where he was a key member of a team which created substantial shareholder value through the acquisition and improvement of several large assets. David Bonanno, a Third Point Managing Director, will serve as Far Point's Chief Financial Officer. The Company has also assembled a strong outside Board of Directors including General Stanley McChrystal, Ms. Nicole Seligman, and Mr. Laurence Tosi.

Third Point LLC, the investment manager of Third Point's funds, has no direct stake in the SPAC or its sponsor. All of Third Point's economics in the SPAC run through Third Point funds, which maintain current exposure to Far Point via its ownership of the SPAC sponsor, augmented by a modest participation in units purchased in the IPO. Third Point funds will also have the opportunity to participate in any follow-on equity to be raised in connection with an announced transaction. We believe there are numerous potential mid-to-large cap transaction possibilities in this dynamic sector that is at the center of important long-term secular trends. The SPAC structure presents Third Point's investors with the opportunity to take a meaningful position in a hand-selected asset that we expect to be led by our co-sponsor. We look forward to sharing more details with you once Far Point publicly announces an acquisition.

Emerging Markets Equity and Credit Update

We were caught off-sides in Latin America during the Second Quarter when we failed to anticipate what a strong USD would do to currencies in the region and especially in Argentina, which has devalued the ARS by approximately 30%. While we sold our large Argentine bond position during 2016 and 2017 at excellent levels, our remaining equity holdings suffered with the devaluation of the ARS. We moved to sell the entire portfolio quickly while security prices in the local currency were flat but still suffered significant losses.

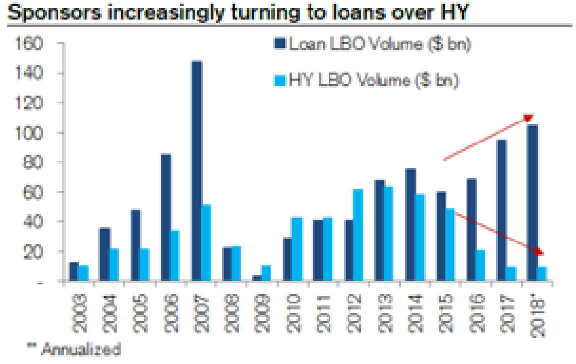
In response to the devaluation, the Argentine administration dramatically raised short-term rates, brought in the IMF, and is reprofiling its capital stack to reduce its historic reliance on short-term funding. This adjustment process will filter through to the economy over the next few quarters and will be painful. We do not presently have material exposure to Argentina but remain optimistic that Argentina's excellent leadership will successfully navigate the current fiscal/monetary transition. We are monitoring Argentina closely for potential opportunities from the sell-off; however, we expect to be in a holding pattern until the country concludes its presidential elections in 2019.

Elections are driving similar uncertainty in many other EM countries. Brazilian elections in October may create new opportunities. Mexico is also undergoing a meaningful leadership shift. In such situations, we are investing only in very liquid securities to maintain flexibility.

Corporate Credit Update

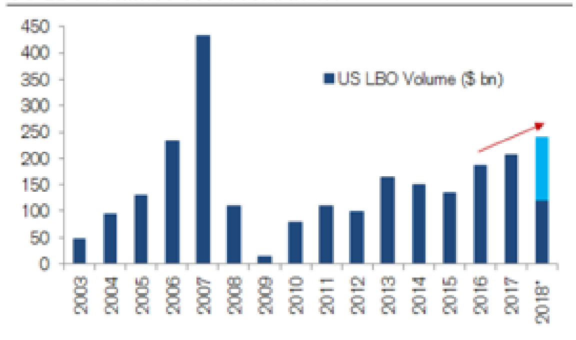
This year, a dearth of attractive opportunities and rising interest rate risk led us to reduce our net performing credit book to zero. During the first half of 2018, the investment grade market posted its second worst total return (-3.2%) since 1994 and the high yield market posted its lowest return (+0.6%) since 2008. Funds flows have been weak, but the high yield market has been supported by low net new issuance despite high LBO volume. Reflecting strong investor demand for floating rate assets, the majority of new issuance has shifted the loan market (much like 2007).

Sponsors increasingly turning to loans over HY



Source: Credit Suisse, S&P LCD

US LBO volumes set record in 1H



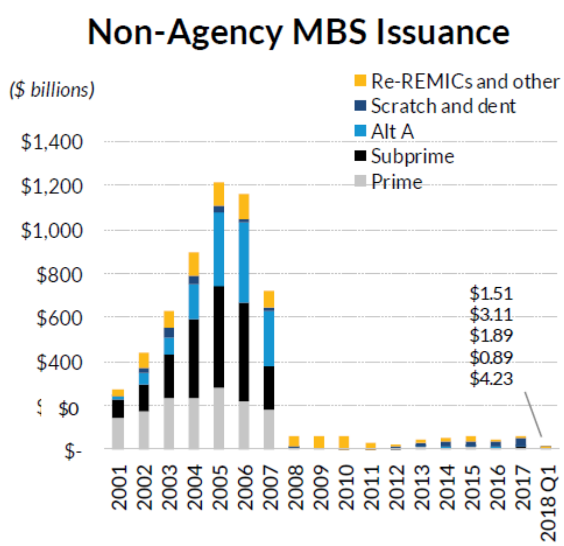
Source: Credit Suisse, S&P LCD

Signs of an impending credit cycle include: 1) we are probably at or near peak global growth. Central banks, led by the Fed, are transitioning to tighter monetary policy; 2) the high yield and corporate markets have ballooned through relentless post-crisis issuance, with the corporate market massively bottom heavy with $2.5 trillion of BBB debt; 3) we are seeing an increase in sloppy behavior – for example, "pro forma adjustments" have accounted for over 30% of disclosed EBITDA in recent new issues according to the calculations of one dealer; 4) Eurodollar futures now predict the end of the tightening cycle in less than 18 months.

Despite this, absent a macro shock, we do not see a significant credit cycle emerging for some time, likely in a couple of years. The nominal level of growth is still good and credit conditions remain very loose. We eagerly look forward to our next bite at the credit apple.

Structured Credit Update

Although structured credit spreads are tight, we have found several interesting if modestly sized opportunities this year. In the broader market, the most active areas of new issuance in 2018 are in CLOs and CMBS, with $89 billion in new CLO issuance and $64 billion in CMBS. CLOs are facing headwinds of widening liabilities, especially for AAAs, which represent 70% of the financing, and tightening asset spreads against the backdrop of tiering in high yield credits. CLOs currently buy more than 50% of leveraged loan issuance. In contrast, non-agency mortgage securitization remains muted despite strong fundamentals in housing.



Sources: Inside Mortgage Finance and Urban Institute.

The total housing value of the US is at $26.4 trillion with household equity at $15.7 trillion. With little to do in traditional non-agency RMBS securities, we have expanded into more verticals in the homeowner's financial lifestyle, combining our interest in marketplace lending and mortgage investing. In a rising rate environment with low levels of housing inventory, we believe the housing market is ripe for innovation, particularly by helping borrowers both enhance the value of their homes via home improvement loans and access equity with new home equity products. While these new products have become a larger portion of our (still modest by historical standards) structured credit portfolio, we continue to remain constructive on "reperforming" mortgages and have had success in this sub-sector during the first half of the year. With new origination channels emerging and the increasing intersection of technology and banks and servicers, we believe many of the current impediments to mortgage growth, including high origination costs and cumbersome, paperwork-intensive refinancing processes will become more streamlined and create opportunity.

Business Updates

Third Point is in the process of launching a US onshore version of our existing levered fund. The vehicle will be available for investment by qualified US investors in the near-term.

As a reminder regarding fund capacity, Third Point's hedge funds intend to continue our practice of replacing some redemptions throughout the year, as we have done since Q2 2017.

During the Second Quarter, we added two new dedicated short sellers to the equities team. Gabriel Montenegro joined the firm in May. Prior to joining Third Point, Mr. Montenegro spent three years at SRS Investment Management. Before joining SRS, he worked at Blackstone in the firm's Private Equity group. Mr. Montenegro graduated from Princeton University with a B.S.E. in Operations Research and Financial Engineering.

Haroon Masood joined Third Point in June. Prior to joining the firm, Mr. Masood spent two years at Viking Global Investors. Before Viking, he worked at Moelis & Company in the firm's Investment Banking division. Mr. Masood graduated from the University of Virginia with a B.S. in Commerce.

Sincerely,

Third Point LLC

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 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 information contained herein relates to the Third Point Offshore Master Fund L.P. unless otherwise specified. The information shown in the section entitled "Performance Statistics" represents that of Third Point Partners L.P., which has been managed by Third Point, its related persons and/or its predecessors since June 1995. P&L and AUM information are presented at the feeder fund level where applicable. Performance, portfolio exposure and other data included herein may vary among the Funds. Sector and geographic categories are determined by Third Point in its sole discretion.

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The performance data presented represents that of Third Point Partners L.P and Third Point Ultra Ltd. 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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