

May 1, 2014

First Quarter 2014 Investor Letter

Review and Outlook

Harsh winter weather caused the economy and corporate earnings to falter in the first quarter of this year, a seasonal phenomenon we expect will dissipate this spring. This weakness was exacerbated by new Fed Chair Janet Yellen's statements shifting the market's expectations of the timing of the Fed's first rate hike. Four months into 2014, it now seems evident that investment performance will require a combination of good stock selection, patience, and deft trading.

Looking back, perhaps our optimism at the beginning of the year was misplaced. First, certain sectors were clearly exhibiting bubblelike valuations. Looking at the bigger picture, it is evident in hindsight that at least for the first part of the year, we were toiling against somewhat of a "Lose/Lose" backdrop. On one hand, if growth did not accelerate then the market appeared fairly valued (at best) given 2013's significant re-rating. On the flip side, if growth did accelerate, the timing of the Fed's change in monetary policy would hang over the market.

Taking a look at the current landscape, the decline in overinflated sectors, though painful in the short term, is healthy in our view. We have seen an equally painful reversion to the mean on many popular trades. Consensus positions entering this year – long Japan, long momentum, and short bonds – have all underperformed, while value and emerging markets have accelerated. This reversion has created a violent bout of deleveraging, particularly among hedge fund holders, creating chances to add to our portfolio at attractive levels.

Despite its challenging start, it appears as we begin May that the U.S. economy is beginning to accelerate from the low levels of Q1. As a result, perhaps 2014 will be the year where one should not "Sell in May and go away". Nevertheless, it is important to keep in mind that by this Fall, we will have had negative real interest rates in the U.S. for a longer consecutive period than at any other time – even after the Great Depression. As tapering ends, most likely in October, and the discussion shifts to an impending first rate hike (probably around the time when unemployment is approaching 6% and inflation is ticking higher), we will have to buckle our seatbelts for an inevitably more volatile environment.

Quarterly Results

Set forth below are our results through March 31st and for the year 2014:

	Third Point Offshore Fund Ltd.	S&P 500
2014 Year-to-Date Performance*	3.3%	1.8%
Annualized Return Since Inception*	17.9%	7.3%

*Through March 31, 2014. ** Return from inception, December 1996 for TP Offshore Fund Ltd. and S&P 500.

Our performance in the first quarter was buoyed by corporate credit and mortgage investments, which provided roughly half of our returns despite being only roughly 25% of our exposure.

The funds are hard closed to all investors and not currently accepting new capital.

Select Portfolio Positions

Equity Position Update: The Dow Chemical Company (“Dow”)

Since we disclosed our stake in January, Dow’s management has taken several shareholder-friendly actions including increasing the company’s dividend, approving a \$4.5 billion buyback to address the impending conversion of the Warren Buffett/KIA preferred securities, and committing to more portfolio divestitures. Management’s level of shareholder engagement has also risen notably, demonstrating an admirable and strong commitment to addressing long-standing concerns.

We also applaud Dow’s recently stated initiative to increase transparency. Shareholders have long called for the company to increase disclosure, improve the clarity of their reporting, and clearly identify underlying business drivers. On Dow’s first quarter earnings call, management suggested it could simplify the portfolio reporting structure by re-classifying (or removing) the Feedstocks & Energy segment. In our view, simply joining the Feedstocks & Energy and Performance Plastics segments would not effectively increase transparency. Instead, the priority should be to implement a consistent, market-based transfer pricing methodology across *and within* all segments so shareholders can clearly understand each business unit’s underlying profitability. Further, to be consistent with its peers, all of Dow’s petrochemical capacities need to be disclosed in detail so that shareholders can more easily benchmark performance versus competitors. All shareholders eagerly anticipate progress on these important initiatives.

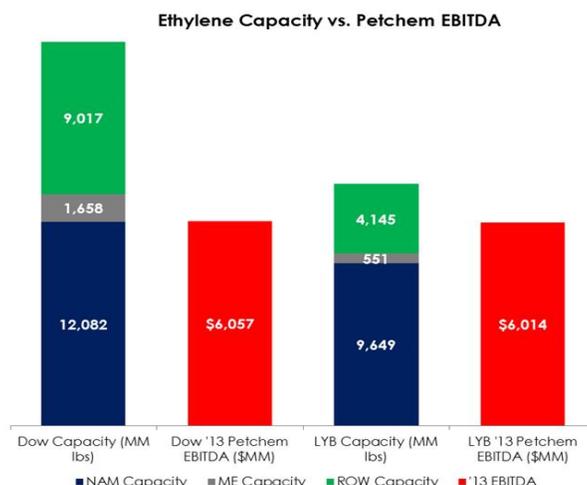
Despite the positive steps taken, we still believe Dow is under-earning its potential in its petrochemical businesses, a concern that management has yet to adequately address. To quantify the extent of under-earning, we sought to compare Dow’s capacity and profits

relative to peers and industry average margins. The result of this carefully researched analysis led us to conclude that Dow’s integrated strategy does not maximize profits.

Petrochemical Under-Earning

Dow’s management has yet to address the crux of Third Point’s case for increasing value: curing under-earning in the Petrochemical businesses. This under-earning is clear when one compares Dow to its largest North American petchem peer, LyondellBasell (“Lyondell”). Dow has ~30% more North American ethylene capacity, triple the Middle Eastern ethylene capacity, and more North American derivatives capacity than Lyondell, yet the two companies generate the same amount of EBITDA in their respective petrochemical businesses.¹ Additionally, Dow engages in multiple downstream businesses in its Performance Materials segment that Lyondell does not.

Figure 1:²

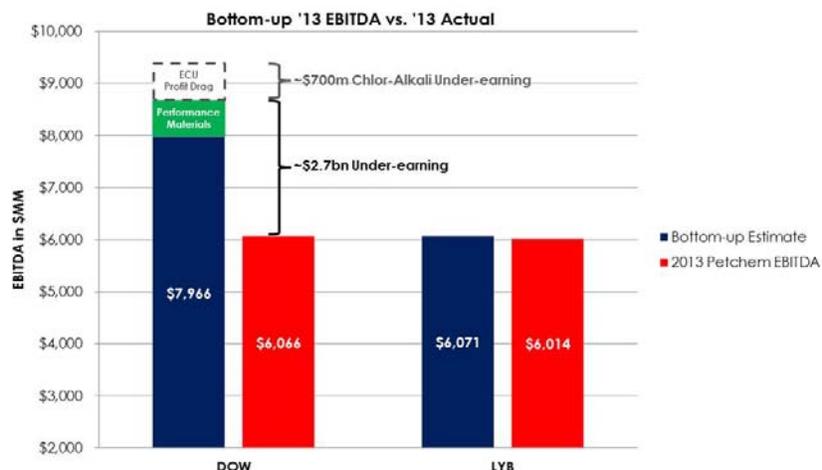


This discrepancy is difficult for the market to identify, because Dow does not disclose any of its capacities. Therefore, to identify the magnitude of under-earning, we did our own bottom-up analysis examining: i) the capacities for the petrochemicals Dow produces, ii) average 2013 industry margins for those capacities, and iii) the actual 2013 feedslate mixes by plant (where applicable). The result of this bottom-up analysis shows a meaningful gap between what Dow’s capacities indicate potential EBITDA *should be* and the amount of EBITDA *actually* generated:

¹ Dow’s petrochemical business includes the Feedstocks & Energy, Performance Plastics, and Performance Materials segments. LYB’s petrochemical business includes all segments except Refining and Technology.

² Dow’s Petchem EBITDA includes all Feedstocks & Energy, Performance Plastics, and Performance Materials. We allocate corporate expense to Dow’s 2013 segment EBITDA based on an estimate of Dow’s Petchem % of total employees. LYB Petchem EBITDA includes all segments except Refining and Technology. LYB allocates corporate expense to segment EBITDA. Both Dow and LYB 2013 EBITDA has been adjusted to include an estimate of JV EBITDA in excess of equity income. Source: Company filings, Third Point estimates. Capacity data: IHS, company filings, Third Point.

Figure 2:^{3, 4}



We estimate the under-earning to be at least \$2.5 billion, which we believe is the result of a strategy focused more on selling downstream products than on maximizing profits.

In this analysis, we have incorporated Dow-specific adjustments where using industry average margin or effective capacity may be overly optimistic. These adjustments include assuming a significant discount to spot pricing for European merchant ethylene volume, and low capacity utilization in both Argentine ethylene and Canadian polyethylene. Additionally, while the Performance Materials segment (where capacities and spreads do not exist) reported \$1.5 billion of EBITDA in 2013, we have only assumed ~\$800 million in our estimate. Since Dow moves numerous self-sourced inputs at cost, a portion of this segment’s EBITDA is transferred from upstream assets in the form of a raw material subsidy. The lack of disclosure and inconsistent transfer pricing make it difficult to isolate the portion of Performance Materials EBITDA that is actually generated by assets within the segment. The ~\$800 million estimate represents our “best guess” as to what segment EBITDA would have been without any upstream subsidization into products like propylene oxide, polyurethanes, epoxies, chlorinated organics, and oxygenated solvents.

At the top of the Dow “bottom-up” bar graph, we have also highlighted \$700 million of under-earning related to chlor-alkali. We show it separately to account for two significant structural deficiencies in Dow’s footprint: i) the suboptimal use of ethylene that is being combined with chlorine in the production of EDC, and ii) Dow’s chlorohydrin propylene

³ See Footnote 2 for Petchem EBITDA composition. We estimate that non-service cost related pension expenses included in reported EBITDA amount to ~\$400 million for Dow and \$20 million for LYB in 2013; pension adjustments have not been included. Source: Company filings, Third Point estimates.

⁴ Bottom-up EBITDA calculated using 2013 industry avg margin, with adjustments for both Dow and LYB where relevant. Actual 2013 feedslate mixes used for NAM ethylene and 100% naphtha for RoW (ex-ME). Source: Third Point estimates, IHS, The Hodson Report, company data.

oxide production process, which consumes caustic and consequently causes Dow to lose a meaningful portion of its merchant caustic potential. We do not believe this lost ECU margin is clawed back further downstream where propylene oxide is consumed in products such as polyurethanes. In both cases, Dow is hamstrung by excess chlorine capacity and its desire to supply downstream derivative products with subsidized raw materials.

Importantly, when we replicate the same bottom-up analysis for Lyondell (i.e. what Lyondell *could* earn vs. what it actually earns), the difference between our estimate and Lyondell’s actual EBITDA is negligible. This result reflects a management team that is focused on being the lowest cost commodity petrochemical producer and a clear strategy that is driven by upstream profit maximization.

In Figure 3, we see that Dow has ~20% greater sales than Lyondell, which is consistent with Dow’s larger upstream capacity and presence in downstream derivatives. However, the downstream businesses require significant headcount, facilities, R&D, and SG&A. Dow’s headcount is ~2.5 times more than Lyondell’s, which is not a reflection of poor efficiency, but rather that Dow is engaged in numerous downstream derivatives that Lyondell is not. Yet, the incremental sales and headcount do not generate additional profits as illustrated below:

Figure 3:^{5, 6}

Petchem Comparison - Excludes JVs	lyondellbasell	Dow
Estimated Employees	12,800	33,000
Revenues 2013A	\$31,832	\$37,914
EBITDA 2013A	\$5,694	\$5,001
Revenues/Employee	\$2.49	\$1.15
EBITDA/Employee	\$0.44	\$0.15
Business Segments Included:	O&P Americas O&P EAI I&D Excludes JVs Includes Corporate	Feedstocks & Energy Performance Plastics Performance Materials Excludes JVs Allocation of Corporate

This is the underlying problem with Dow’s strategy: many upstream petrochemical molecules do not gain incremental EBITDA as they move downstream, often through 3 or 4 business units, before they are sold to the end-customer. In fact, our under-earning analysis suggests that Dow’s commitment to the downstream integrated strategy has actually created a significant drag on upstream profitability.

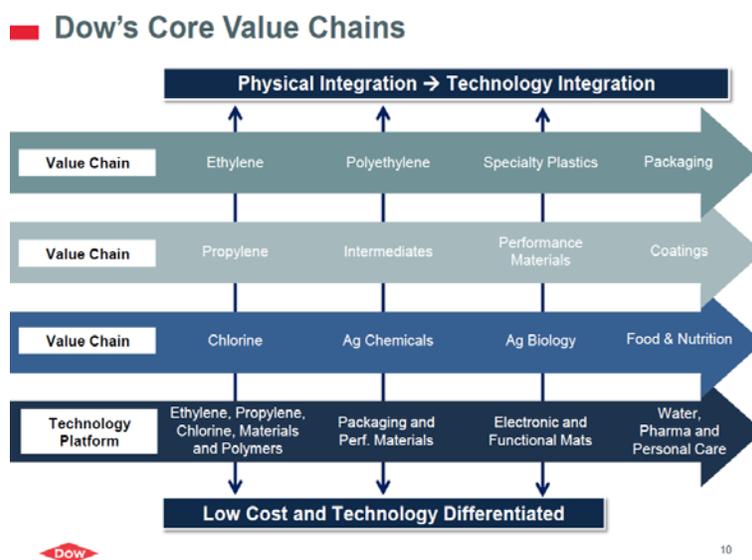
⁵ LYB headcount excludes ~500 employees assumed for the Refining segment. Dow headcount excludes ~12,000 employees in Electronic & Functional Materials and Coatings & Infrastructure, and ~8,000 in Agricultural Sciences. Source: Company filings, press releases, Third Point.

⁶ See Footnote 2 for segments contributing to EBITDA. Figure 3 EBITDA excludes JVs in order to be consistent with associated revenue and headcount.

Unconvincing Integrated Strategy

Figure 4 is the visual representation of what Dow's management describes as taking low cost inputs and using value-add innovation to make differentiated downstream products. This, in our opinion, is the essence of why Dow's strategy is flawed – none of ethylene, propylene, or chlorine provides any product differentiation or specialization in packaging, coatings, or food & nutrition products:

Figure 4:⁷



On the Q4 earnings call, CEO Andrew Liveris claimed that “more than half the profits that are coming out of [the petchem] chain come from innovation, not from low-cost feedstocks”. We respectfully disagree. The fact that Dow's petchem businesses under-earn their capacities (see Figure 2) suggests that this claim is impossible. Dow needs to provide investors analytical or numerical evidence about the value derived from integration and innovation if the market is to believe these claims.

Given Dow's decision to exit chlor-alkali, it appears that Dow believes that its Ag Chemicals and Ag Biology businesses do not derive value-add differentiation from chlorine integration. We take this logic one step further and question whether Dow's specialty segments need ethylene or propylene integration.⁸ Within petrochemicals, there are upstream and downstream products in which we see few identifiable niches where incremental value from integration exists (notwithstanding the value derived from raw materials being transferred at cost rather than market price). Rather, as we stated above,

⁷ Source: *Dow Strategic Update*, Slide Presentation 3/19/2014.

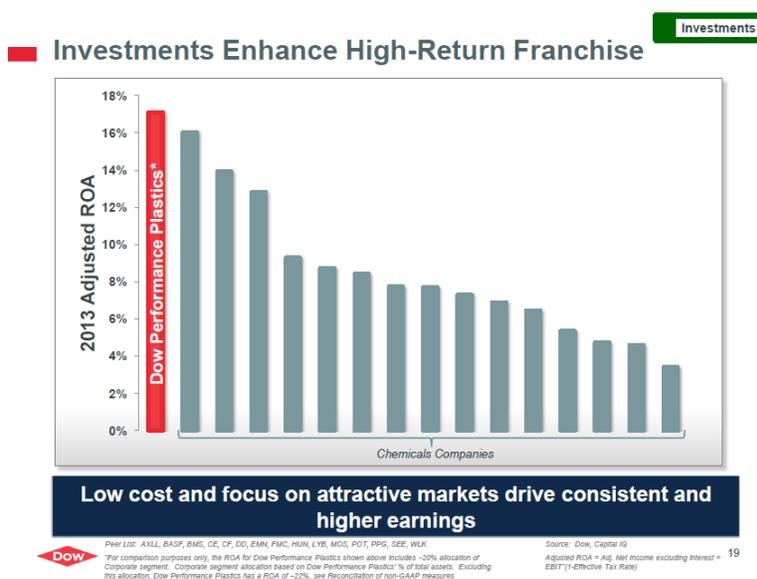
⁸ Specialty segments include Agricultural Sciences, Coatings & Infrastructure, and Electronic & Functional Materials.

there appears to be negative value from converting upstream petrochemical molecules into downstream products.

Poor Returns, Poor Capital Allocation, Misleading Benchmarking

Dow recently shared a benchmarking analysis comparing the Return-On-Assets (“ROA”) of its Performance Plastics segment with a self-selected chemicals universe.⁹ The comparison is not apples-to-apples because the Performance Plastics segment is Dow’s most profitable division and is almost exclusively a polyethylene business, whereas the chemicals universe is comprised of entire companies, many of which are in very different businesses.

Figure 5:10



The Performance Plastics segment also receives the entirety of its ethylene inputs at cost from the Feedstocks & Energy segment. Again, due to inadequate disclosure, it is not clear whether the numerator or the denominator in Performance Plastics’ ROA is an accurate reflection of true profitability or assets. We believe a more fair assessment would be to examine the ROA of Feedstocks & Energy, Performance Plastics, and Performance Materials together, which encompasses all of Dow’s upstream-downstream integrated petrochemical returns and assets. To be consistent, we have used Dow’s own ROA calculation and constructed a table with all of the segment ROAs:

⁹ Chemicals universe consists of Axiall, BASF, Bemis, Celanese, CF Industries, Dupont, Eastman, FMC, Huntsman, LyondellBasell, Mosaic, Potash, PPG, Sealed Air, and Westlake. Source: *Dow Strategic Update*, Slide Presentation 3/19/2014.

¹⁰ Source: *Dow Strategic Update*, Slide Presentation 3/19/2014.

Figure 6:11**ROA Calculations**

(\$ in millions)

	PP	F&E	PM	Total Dow Petchem	C&I	EF&M	AG	Total Company
Segment Adj. EBITDA	\$4,092	\$837	\$1,459	\$6,388	\$892	\$1,040	\$969	\$9,289
Segment D&A	(707)	(128)	(666)	(1,501)	(466)	(425)	(189)	(2,581)
Segment EBIT	\$3,385	\$709	\$793	\$4,887	\$426	\$615	\$780	\$6,708
Segment Tax (at Effective Rate)	(989)	(207)	(232)	(1,428)	(124)	(180)	(228)	(1,960)
Segment NOPAT	\$2,396	\$502	\$561	\$3,459	\$302	\$435	\$552	\$4,748
Share of Corp Adjustment	(145)	(129)	(178)	(453)	(82)	(82)	(110)	(727)
Adj. NOPAT	\$2,251	\$373	\$383	\$3,006	\$219	\$353	\$442	\$4,021
Reported Segment Assets	\$10,920	\$5,772	\$9,850	\$26,542	\$11,438	\$11,067	\$7,058	\$56,105
Adj. For Share of Corp. Assets	2,679	2,376	3,286	8,341	1,517	1,517	2,022	13,396
Total Assets	\$13,599	\$8,148	\$13,136	\$34,883	\$12,955	\$12,584	\$9,080	\$69,501
Adjusted ROA	16.5%	4.6%	2.9%	8.6%	1.7%	2.8%	4.9%	5.8%
Unadjusted (Ex-Corp) ROA	21.9%	8.7%	5.7%	13.0%	2.6%	3.9%	7.8%	8.5%

When looked at in aggregate, we estimate total Dow petchem ROA to be 8.6%. This is not a surprise to us – we have highlighted that: i) Dow under-earns its capacity due to its misaligned downstream strategy, and ii) inconsistent transfer pricing makes it impossible to benchmark any of the individual petchem segments. Underlying Performance Plastics ROA is likely lower than 16.5% and similarly, underlying Feedstocks & Energy ROA is probably higher than 4.6%, but what should matter to shareholders is that ***Dow's overall petchem ROA of 8.6% is certainly not best-in-class among the comparison universe.*** Furthermore, Dow's company-wide ROA of 5.8% would place it near the bottom quartile of Dow's selected universe, which is consistent with how the market views Dow's track record. Management needs to focus on what is driving this underperformance and how to cure it.

Improving petchem ROA should come from underlying operational improvement and better capital allocation rather than from flattering returns with equity income from Sadara. We view Sadara as another example of Dow embellishing returns and capital allocation:

¹¹ Assumes Dow 2013 consolidated tax rate of 29% for all segments. Corporate allocation for Performance Plastics based on Dow's assumption of a 20% allocation. Other segments based on estimate of employee count by division. Source: Company filings, Third Point estimates.

Figure 7:12

Sadara JV Return on Assets (\$ in millions)			
	Low	Mid	High
Dow Revenue Guidance	\$6,000	\$7,000	\$8,000
Dow EBITDA Margin Guidance	30.0%	35.0%	40.0%
Implied EBITDA	\$1,800	\$2,450	\$3,200
Estimated DD&A (30-Year Life)	(643)	(643)	(643)
EBIT	\$1,157	\$1,807	\$2,557
Taxes at 20%	(231)	(361)	(511)
Gross NOPAT	\$925	\$1,445	\$2,045
Gross Capital Invested	\$19,300	\$19,300	\$19,300
Implied ROA	4.8%	7.5%	10.6%
Dow WACC	9.2%	9.2%	9.2%
EVA	(4.4%)	(1.7%)	1.4%
Capex Multiple of EBITDA	10.7x	7.9x	6.0x

When taking into account gross capital invested (both equity *and debt financed*) and Dow's latest guidance, we estimate that the ROA of the Sadara project (the company's largest investment since Rohm & Haas) will be 5% - 10%. Only in Dow's bull case would the returns from Sadara exceed Dow's own 9% cost of capital.¹³

Looking Forward:

Harnessing the full potential of Dow's petrochemical assets will take time as it could require a combination of closures, modifications, brownfield investments, and divestitures. Our suggestion to management is to recognize that Dow is involved in numerous commoditizing derivative products and to make a more clear-cut delineation between low-cost feedstock and downstream value-add related profitability. We have urged management to embrace the fact that it is running one of the world's largest commodity petrochemical businesses, which historically has been a challenge.¹⁴ Conducting an operational review (with market price based raw material transfers) will undoubtedly result in increased scrutiny as to the specialty nature of some of Dow's petchem business units. This acknowledgement and the subsequent review are crucial to becoming a best-in-class, low-cost petrochemical operator. After a decade of underperformance, shareholders deserve greater transparency and a comprehensive reassessment of Dow's strategy. We appreciate management's engagement with all of its shareholders, and look forward to furthering discussions regarding strategy and capital allocation in the pursuit of maximizing Dow's great potential.

¹² Company guidance. Source: *Sadara Spotlight: Site and Enterprise Readiness*, Slide Presentation, 3/20/14. *Sadara Spotlight*, Slide Presentation 9/26/13. Tax rate assumed to be Saudi Arabia's corporate tax rate.

¹³ Weighted Average Cost of Capital of 9.2%. Source: Bloomberg, 4/29/14.

¹⁴ "It is honestly impossible to think of Dow as a petrochemical company anymore." - CEO Andrew Liveris, Fourth Quarter 2013 earnings call. "Lots of the K-Dow scope is now sold. We've actually done the divestment of what might have been called a petchem business, the traditional commodity business." - CEO Andrew Liveris, Fourth Quarter 2013 earnings call.

Equity Position: IHI Corporation (“IHI”)

IHI is a mid-cap Japanese conglomerate exposed to three big themes: commercial aerospace, automotive fuel efficiency, and Abenomics-led real estate reflation in Tokyo.

Over the past few years, Third Point has successfully invested in numerous companies in the commercial aerospace sector. While air travel has grown historically at ~2x GDP, increasing fuel costs – which account for roughly 40% of cash operating costs for airlines – are driving the decision to upgrade to new, more fuel-efficient planes. A substantial increase in air travel by new fliers in emerging markets is also expected to drive demand for new aircraft in coming decades. Today, emerging market-focused airlines account for more than 2/3 of global aircraft orders while representing only 1/4 of the global fleet.

As the leading Japanese jet engine manufacturer, IHI partners with engine OEMs like GE, Pratt & Whitney, and Rolls Royce to design engine platforms to power best-selling airplanes like the A320, A320neo, B787, B777, and B777X. IHI’s focus on quality, safety, and on-time delivery has resulted in it consistently increasing its share of key engine programs in new airliners. We believe we are investing in IHI at an attractive price because the market assigns an undeserved conglomerate discount to it.

In one of its two key segments – aerospace and defense – IHI’s margins will expand as its commercial installed engine base grows, driven by spare parts sales which will provide the company with a long-tailed, high-quality, dollar-denominated annuity stream. We expect IHI’s spare parts business to grow volumes by over 10% annually for the next few years while achieving average annual price increases of 5% in dollar terms on a predominantly yen-denominated cost base. With spare parts incremental margins of well over 50%, IHI’s jet engines business’ earnings are set to grow dramatically despite significant R&D investments in new platforms.

The second key business in IHI’s portfolio that offers both growth and high returns is vehicular turbochargers. In this business, IHI is a global #3 (after Borgwarner and Honeywell). IHI’s superior engineering capabilities and willingness to develop bespoke solutions for auto OEMs has led it to outgrow the industry and gain market share. As the internal combustion engine faces increasingly stringent government mandates for reduced fuel consumption and CO2 emissions, we expect widespread turbocharger adoption, enabling IHI to grow topline in the high teens while closing some of the margin gap to its main competitors. We also expect growth emanating from Chinese demand thanks to IHI’s strong relationships with European OEMs like Volkswagen, Fiat, and Daimler.

While these two segments account for two-thirds of IHI’s earnings, the company is involved in many other engineering businesses – from the manufacturing of boilers and turbines to

LNG terminals and tanks – which impact its market perception disproportionately. Throughout the years, the results from these many small businesses have ranged from acceptable to horrible, thus explaining the conglomerate discount applied by the market. IHI is also regarded warily by investors because management shocked investors in 2007 with an announcement of large cost overruns in its energy division. Nearly half of the company's market cap was wiped out. This prompted management change and an increased focus on project risk management and capital allocation, including deconsolidating its shipbuilding operation. We think the changes have been positive and the company should no longer be punished for 2007's mistakes.

Finally, IHI has another significant asset – valuable non-core real estate. The company owns a large land bank in Toyosu, a central district of Tokyo located in the vicinity of the 2020 Tokyo Olympic village. The company also owns large office buildings and retail facilities built on the land and is in the process of further development work. IHI listed the book value of its real estate to be ¥252 billion as of March 2013. Third Point commissioned two independent appraisals of the land bank and buildings and concluded the value to be closer to ¥350 billion, or over 50% of IHI's current market capitalization.

Should management decide to spin off the property into a separate company that could achieve substantial financial leverage for redevelopment purposes (hotels, condos, and office buildings in Toyosu and a modern logistic park in Koto ward), the company would realize enormous value for shareholders. As property values rise and rental income increases, IHI will be able to reduce its participation in the listed real estate company and reinvest in its jet engines and turbochargers segments.

We see the intrinsic value of IHI at more than ¥1000 per share, well above where the stock trades today. IHI's path to value could be substantially streamlined if management were to choose to increase its focus on its high return segments and continue its move away from the suboptimal conglomerate structure of the past.

SoftBank Corp. (“SoftBank”) Update

Following its strong rally at year-end, SoftBank shares pulled back 15% during Q1 2014. We believe this pullback was due to technical trading and that SoftBank's fundamentals are stronger than when we initiated the position during the fourth quarter of 2013.

SoftBank has continued to demonstrate significant value growth in key drivers across each of its underlying businesses. The Japanese wireless segment successfully navigated the temporary impact of NTT's iPhone offering and seasonal promotional activity in March 2014, while consensus valuations for Alibaba Group have grown from \$120 billion to \$171

billion year-to-date. These trends play into the four-pronged equity value expansion story for SoftBank shares:

- 1) SoftBank Mobile value expansion of ¥230 per share annually (EBITDA growth, constant multiple)
- 2) SoftBank deleveraging of ¥400 per share annually (Capex cliff in 2013)
- 3) Alibaba value expansion of ¥500 per share (\$20 billion per annum Alibaba appreciation)
- 4) Narrowing of the NAV gap (currently 23% versus consensus)

From a cash and deleveraging perspective, the recently announced sale of the eAccess business to Yahoo! Japan will further bolster these at SoftBank Mobile, as it offloads nearly \$1 billion in annual Capex and transfers \$4 billion of net cash from Yahoo! Japan to SoftBank. We believe the Yahoo! Japan transaction will unlock ~¥400 per share value for SoftBank, offset by a ~¥120 de-rating of SoftBank's Yahoo! Japan equity stake, for a net ¥280 benefit to NAV.

Most significantly, SoftBank's market cap has grown by only \$9 billion since July 2013 while consensus valuations of Alibaba by U.S. sell-side analysts have nearly doubled from \$86 billion to \$171 billion today, implying a \$31 billion increase in the value of SoftBank's 37% stake. Likewise, SoftBank's stake in Sprint has also appreciated by \$4 billion. The growth in the underlying asset values, enhanced by the accretive nature of the Yahoo! Japan transaction have only served to increase the relative attractiveness of SoftBank shares since October, despite the market's hesitation.

SoftBank is witnessing substantial growth in underlying asset value, de-levering via the Yahoo! Japan transaction, and poised to drive further de-levering and free cash flow growth in SoftBank Mobile. It currently trades at a 23% NAV discount to consensus estimates of value. Alternatively, valuing SoftBank Mobile on a P/FCF methodology suggests SoftBank is trading at a 45% NAV discount. The discrepancy lies in the fact that the EV/EBITDA approach understates SoftBank Mobile's high free cash flow conversion and low cost of capital. These discounts are clearly unwarranted. We anticipate SoftBank's NAV will post continued growth and shrink this discount as management's strategy comes into further focus and transparency around underlying assets (particularly Alibaba) improves.

Structured Credit Update

Mortgages led the portfolio during the first quarter, returning 14.2% on average exposure and contributing over half of the quarter's returns. Realized profits were due to sales in our Alt-A Re-Remic book, which we began assembling in 2009 and continued to build

through the beginning of 2013. Despite the recent bout of market volatility, we are continuing to receive attractive bids for these bonds.

Much like in our equity book, we believe that our performance will be generated by individual bond selection versus discovering sizeable, displaced asset segments. We have been evaluating each opportunity we uncover and adding diverse exposure to the portfolio. We benefitted from participating in some larger one-off situations – a benefit of our size – and by opportunistically adding to our subprime portfolio. We have also added exposure outside of the U.S. in the past six months, particularly in Europe, and expanded our CMBS portfolio. We are actively seeking to purchase assets from European banks.

Sincerely,

Third Point LLC

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All P & L and 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 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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