

July 18, 2014

Second Quarter 2014 Investor Letter

Review and Outlook

Markets moved higher in the first half of 2014, despite an early sell-off in heavily-owned hedge fund names and popular technology stocks. While investors perceived the market as volatile, the +7% return for the first half largely exceeded expectations.

In the U.S., the Second Quarter's strength was magnified by the rebound from poor weather that depressed Q1 results. Despite strong recent data on jobs and manufacturing, it remains unclear whether growth will be robust enough to merit tightening action by the Fed this year. We believe we are entering a decisive period and normalized Third Quarter economic growth will mark a key inflection point.

Until then, anticipating a rate hike has been like waiting for Godot. If growth is approximately 3% during the second half of this year, we expect the market will look to the Fed to take action in early 2015. If growth moves closer to 2%, the Fed is likely to remain on hold for longer. While typically markets have applauded that course of action, at current S&P multiples, lower growth could instead cause a modest de-rating as corporate earnings growth will likely disappoint.

Our profits this year have been led by corporate and structured credit investments which have generated two to three times the returns of their indices and peers. Our U.S. equity portfolio's return has been slightly ahead of the S&P 500 index's performance. Relatively small investments in Latin America have been exceptional performers.

Exposure to Japan has been our biggest source of losses in 2014. A strong year-end rally and frustration over the pace of reforms caused the Japanese markets to correct by more than 10% in the First Quarter. Our team's trip to the region in May and meetings with senior officials confirmed that the desire for reform is acute and widespread. Though Prime Minister Abe and other leaders appear committed to changing Japan, shifts of this magnitude do not happen overnight. Moving a country from a culture of persistent deflation to an inflationary environment will only happen slowly. We are seeing early signs that the government's growing support for improved corporate governance and increased focus on shareholder returns is impacting Japanese companies, a few of which have adopted measures addressing these areas recently. We continue to find compelling individual situations in Japan and, while each has an event-driven component, we recognize that the macroeconomic backdrop will factor significantly in the outcomes of these investments. We think recent macro headwinds will become tailwinds again towards

year-end but remain vigilant about inaction. A failure of Abenomics would likely mean that it is time to move on.

Looking ahead, we expect market volatility to continue. After increasing exposure in May, we recently sold down some positions and are focused on several larger new ideas. We are agnostic about geography and sector. Credit exposures should remain steady and we will continue to be highly selective when initiating new opportunities. We believe that having dry powder on hand will be increasingly useful towards year-end.

Quarterly Results

Set forth below are our results through June 30th and for the year 2014:

	Third Point Offshore Fund Ltd.	S&P 500
2014 Second Quarter Performance*	2.6%	5.2%
2014 Year-to-Date Performance*	6.0%	7.1%
Annualized Return Since Inception**	17.8%	7.5%

*Through June 30, 2014. ** Return from inception, December 1996 for TP Offshore Fund Ltd. and S&P 500.

The funds are not currently accepting new capital.

Select Portfolio Positions

LatAm Opportunities

After several uneventful years, investments in Latin America have perked up in 2014. We have invested in both event-driven and macro-oriented situations throughout the region, generating a +37% return on average exposure for the year-to-date. Select investment examples include:

Kroton Educacional SA

In the Third Quarter of 2013, we initiated a position in Kroton Educacional SA (“Kroton”). The company is a leader in the fast-growing Brazilian higher education market. While Kroton has had a long track record of executing growth initiatives, we were attracted to the investment because of Kroton’s announced merger with its key competitor, Anhanguera. This merger process was complicated, with both anti-trust risks and the potential for shifts in the deal price, but we remained confident that the transaction would close. At our entry price, we were creating the combined entity at 10x 2015 P/E for a best-in-class market leader projected to grow earnings at 20-25% over the next 5 years. In addition to an inexpensive valuation and event catalysts, we were making a bet on the combined company’s CEO, Rodrigo Galindo, an excellent leader with a proven track record who is fully aligned with shareholders.

While there were lots of fits and starts – which has been our experience in every Brazilian arbitrage situation we have been involved in – the deal ultimately did close and the value of our position has nearly doubled. We still see growth ahead for Kroton and believe CEO Galindo will deliver significant value through post-merger synergies and organic growth in an expanding industry in Brazil.

Fibra Uno

In Mexico, we recently participated in the \$2.2 billion capital raise for Fibra Uno, the country's largest REIT. Fibra's CEO, Andre El-Mann, and his team have an impressive history of creating substantial value via development and M&A which we believe is not fully reflected in Fibra Uno's current price. Additionally, macroeconomic conditions in Mexico are very attractive following the recent passage of several critical, long-awaited government reforms.

Higher economic growth should prompt increasing rent levels for Mexican retail, office, and warehouse properties, which surprisingly are the lowest in developed Latin America. Over time, we expect to see demand for new space drive up land values which, in turn, should increase replacement cost and necessitate higher rents to compensate new developers. We believe we are in the early innings of this real estate cycle in Mexico and Fibra Uno offers attractive exposure to a fundamentally sound business with excellent leadership.

Argentina

Finally, after the January sell-off in Argentine equities and bonds driven by much-needed currency devaluation, we re-entered our long position in select government credit securities and initiated a stake in Argentina's main oil company, YPF. We are in the midst of a critical inflection period for the country: if the government settles with its hold-out creditors, Argentina will regain access to global capital markets and solve its liquidity (reserve) problem since its "balance sheet" (debt/GDP) is healthy. Following the resolution last month of the decade-long legal process in the U.S. courts, we believe the hold-out creditors and the government are finally likely to arrive at an agreement by year-end. Doing so would undoubtedly benefit the Argentinian economy.

Beyond this, after a decade of virtually no foreign investment, an impending change in political leadership at the end of 2015 should lead to more market-friendly policies. This should increase foreign direct investment and boost the economy. We hope to uncover additional investment opportunities in Argentina as it emerges from its long malaise.

Equity Position: Royal DSM

Over the past three years, Royal DSM NV (“DSM”) has transformed itself into a leading global life sciences company focused on health and nutrition with ~\$12 billion of sales and ~\$1.7 billion of EBITDA. DSM’s portfolio of businesses also includes legacy activities in materials sciences. While the Materials segments account for ~55% of sales, their profit contribution to the DSM group (~30% of EBITDA) has been greatly surpassed by that of the Nutrition segment (~70% of EBITDA). Earlier this year, DSM shares sold-off following: i) a profit warning in the Nutrition segment, and ii) growing skepticism about DSM’s ability to execute on its plan to divest its commodity caprolactam business. The weakness in DSM’s share price served as an opportunity to build our position. We believe that the profit warning in Nutrition was driven by cyclical factors and abnormally adverse weather rather than any structural changes in the underlying fundamentals. We are also optimistic that management can successfully separate its commodity caprolactam exposure through either a sale or joint venture. Finally, near-term trends are positive in both of DSM’s businesses, with Nutrition starting to show signs of reverting to a more normalized growth rate and Performance Materials starting to inflect from depressed levels given its exposure to rebounding European automotive and construction markets.

DSM group currently trades at 7.5x forward EV/EBITDA. Based on our analysis, we believe that both the Nutrition and Performance Materials segments should command higher multiples than DSM’s current group multiple. The low group valuation is driven by the continued presence of the Performance Materials and Polymer Intermediates segments. These businesses have de minimis end-market overlap or synergies with Nutrition. Furthermore, the non-nutrition businesses are structurally more volatile and have lower returns, making the combined entity cumbersome for investors to analyze and appropriately value.

Comparable companies to DSM’s Nutrition segment trade in the 11x-13x EV/EBITDA range. Given the segment’s secular growth characteristics and high return-on-capital, we believe this multiple range is justified. DSM’s Nutrition business benefits from global scale and presence across the downstream value chain. The company offers customers a unique value proposition through its ability to manufacture and distribute a broad portfolio of nutritional supplements and work collaboratively to create differentiated, custom-formulated products. It is clear from our research that these competitive advantages have helped DSM win new business. These capabilities are especially relevant given that customers are increasingly outsourcing R&D and supply chain functions.

In the Performance Materials segment, DSM has strong positions in many specialty plastic products and is a global leader in its ultra-strength Dyneema fiber. We believe there would be strategic interest in accessing DSM’s downstream plastics engineering capabilities and

high-quality customer relationships. In addition, 40% of the segment's end-market exposure is to the building and construction and automotive sectors, which are just beginning to show signs of recovery. Given these factors, the value of the businesses within Performance Materials to potential acquirers suggests that a blended multiple of 8.5x EV/EBITDA is achievable for the segment.

DSM offers compelling risk-reward as its portfolio continues to shift toward that of a high-quality, higher multiple life sciences company. Exiting the caprolactam business should begin to address the ~40% discount that the group trades at relative to our sum-of-the-parts valuation. With its successful history of divesting non-core businesses, we look forward to DSM management's future efforts to unlock shareholder value via portfolio streamlining.

Business Updates

New Analysts

Stephen Schatzman has joined the firm as a credit analyst. Stephen joins Third Point from Ziff Brothers Investments where he most recently worked as a part of the firm's new Chimney Rock fund. Prior to that, he worked at Miller Buckfire & Co. where he focused on restructuring and M&A. He graduated from Johns Hopkins University in 2011 with a B.A. in Economics.

Jamie Sterne recently rejoined Third Point as an equity analyst after spending last summer as our M.B.A. intern. He worked previously as a macroeconomic analyst at Greenmantle LLC and as a long/short equity analyst at BeaconLight Capital. He began his career at Maverick Capital where he focused on consumer equities. He holds an M.B.A. from Harvard Business School and a B.A. *magna cum laude* in History from Harvard College where he was elected to Phi Beta Kappa.

Sincerely,

Third Point LLC

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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

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