Fourth Quarter 2015 Investor Letter

Review and Outlook

Markets are off to a tumultuous start for the year, as many indices show: the S&P (-10.3%); the NASDAQ (-14.7%); the DAX (-18.5%); the NIKKEI (-17.4%); and the Shanghai Composite index (-21.9%). Last year’s darlings like Amazon (-25.5%) and Netflix (-24.5%) have fallen meaningfully in 2016, but hardest hit have been some companies seen as “value” stocks like Williams (-48.3%), Bank of America (-33.7%), and Morgan Stanley (-31.4%). We believe the indices’ drastic declines actually fail to capture the true carnage revealed when you take a closer look at the breadth of S&P companies experiencing massive losses. In some cases, these losses may represent permanent value destruction. The 2015 market we dubbed a “Haunted House” feels about as scary as the Disney kids’ ride “It’s a Small World” when compared to 2016.

Last August, we recognized that a global tidal shift in monetary policy and a reversal in central bank policy would likely cause fund flows out of many asset classes. We reduced our exposure to companies that were economically sensitive or tied to China or to commodity pricing while significantly increasing our short exposure. For the remainder of 2015, we generated profits on the short side but were hurt by our decision to seek safe haven in healthcare names and other companies we believed would remain sheltered from the new world order. We succeeded in avoiding calamitous losses in the portfolio and preserved our clients’ capital in 2015.

So far this year, markets have suffered from a more steady drumbeat of negative news about China’s demise, how-low-can-they-go commodity prices, a possible US recession, high yield credit sell-offs, spiking national deficits, and Fed policy and statements that appear incoherent to many market participants. Additional toxic ingredients have been

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1 All performance statistics provided through close of business on February 11, 2016.
added to the mix in February: whispers of instability among major European Financial institutions, unusual currency volatility and negative rates in some major economies, and a massive sell-off in the momentum stocks that sheltered some investors last year.

As we look around the world, we see a need to rebalance important parts of the global economy and concurrent industrial over-capacity in some sectors. Imbalances like these create inequality and discontent and we attribute the unusual state of the US election to this sentiment. There is no doubt that the rise of populism in the Presidential race is creating further market uncertainty. So far, however, this is a “Wall Street” recession, not a “Main Street” recession. It is unclear at what point a falling stock market begins to impact consumer wealth such that American buyers retrench. If we reach this point, there is no doubt that the economic picture in the US becomes grim.

Since the event-driven, long equity approach that worked well since 2009 hit a brick wall late last year, we have shifted our portfolio significantly by drawing on our experience in strategies better suited to the current environment. A renewed focus on generating alpha on both sides of the portfolio has led us to increase single-name equity shorts by four-fold over the past year. Our total equity short exposure is nearly $4.5 billion today. As capital has flowed away from the event-driven space, we have added several interesting risk arbitrage trades. Nearly half of our profits since 2009 have been derived from our credit strategies, which we expect to continue, and our corporate credit team is currently net short. Thanks to this portfolio reorientation, we have held up better than the indices in the recent sell-off. In the past 100 days since the S&P peaked, that index is down -12.7%, the Russell 2000 is down -19.6%, and the NASDAQ is down -16.7%. Third Point has lost -7.7% over the same period.

Despite the difficult conditions, there are fewer shovels in the sandbox and different opportunities from those we have seen over the past few years. While we remain respectful of a market this violent and have significantly dialed back our overall net and gross exposures, we remain poised to pick up bargains which we believe will generate solid
risk-adjusted returns for our investors during this period of economic uncertainty and rebalancing.

Quarterly Results

Set forth below are our results through December 31st and for the year 2015:

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<th>Third Point Offshore Fund Ltd.</th>
<th>S&amp;P 500</th>
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<tbody>
<tr>
<td>2015 Fourth Quarter Performance*</td>
<td>3.2%</td>
<td>7.0%</td>
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<tr>
<td>2015 Year-to-Date Performance*</td>
<td>-1.4%</td>
<td>1.4%</td>
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<td>Annualized Return Since Inception**</td>
<td>16.2%</td>
<td>7.3%</td>
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Sincerely,

Third Point LLC

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 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.

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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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