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Third Quarter 2016 Investor Letter

Review and Outlook

Third Point returned approximately 5% during the Third Quarter, outpacing the S&P 500 index by 1% and the CS Event-Driven index by 2%, with approximately half the net equity exposure. Results were driven by profits in each of our sub strategies – Equities, Sovereign and Corporate Debt, Structured Credit, Risk Arbitrage, and Privates – and also in each geographic area in which we invest globally. We generated alpha in each month of Q3. Despite a difficult year for hedge funds generally and a challenging start to the year for us, we have delivered positive returns for the year to date. Our results have been driven by a number of idiosyncratic opportunities that we have invested in over the past six months and we see more of the same types of ideas in our pipeline.

Trading and portfolio construction have required a strong constitution this year. The "haunted house" market coined by the late JP Morgan legend Jimmy Lee over 18 months ago has continued throughout this year with a constant string of macro "surprises." A significant share of our time is spent deciphering the chatter to identify the most relevant "key" that will tip market risk and adjusting positioning accordingly. This year, our research led us to transition away from the short China / long Dollar bet in mid-Q1 and go long energy credit and out-of-favor industrial commodities-related equities. Later in the year, we responded to Brexit by covering shorts during the post-vote panic and increasing long exposure.

Today, we are focused on a few key areas:

- Understanding the global shift from monetary to fiscal policy: monetary policy's effectiveness is waning, which will impact bond yields. This influences our overall views of market valuation as well as sector allocation considerations.

- Will fiscal expansion become the new world order? While it seems logical and timely, it is challenging considering the very high debt to GDP levels globally. However, fiscal expansion could be an antidote to rising populism around the world which might smooth the way towards stimulatory infrastructure measures at home and abroad. One caveat is that not all countries have the flexibility to pursue such measures.
- While China has fallen temporarily off the radar screen, we still see reasons for concern. The stabilization in economic activity has come at the cost of increasing leverage and a potentially overheated housing market. Political change next year may also result in increased volatility.
- We are clearly in the late stages of a business cycle following an eight year (tepid) expansion. While we do not forecast a financial crisis or a recession, a clear path to growth seems elusive. Consumers have been reducing spending and businesses have never regained their pre-2008 capital investment levels. We might soon long for 2% GDP growth.
- Earnings have stalled for a few years and while this can be partially explained by falling oil prices, a strong dollar, weak global growth, and flat margins, earnings estimations may be inflated at these levels.

This last observation dovetails with both the opportunity and the challenge we face investing today. We have seen a return to a "stock-pickers" market this year. However, that term does not mean what it did fifteen or twenty years ago when we were in our infancy. Then, picking stocks could be done in a virtual bubble and all of our time was spent deep in financial statements. While our analyst team still spends the vast majority of its workday analyzing fundamentals, getting overall portfolio positioning right is equally essential to generating returns. The macro considerations discussed above must be interpreted correctly and applied successfully. When we add in the use of data sets and "quantamental" techniques that are increasingly important to remain competitive while investing in single-name equities, it is clear that our business is rapidly evolving.

We often focus on disruption when generating investment ideas; just as Uber has disrupted the taxi and car rental industries, Amazon has changed retail, and Facebook and Google have altered the print media business, disruptions are also changing investing. While some doors have closed, others are opening. We believe that maintaining our opportunistic and nimble framework has allowed us to transition successfully into this next phase.

Our democracy has also been meaningfully disrupted this year. Social media, primary processes built for the pre-internet era, and illegal foreign cyber-attacks have changed the trajectory of our political system. We try to analyze all of these political and economic events in a dispassionate manner, separating our feelings from what we think the impact will be on the economy, markets, and certain industries. Maintaining such emotional distance has been particularly difficult during the most disappointing and bizarre election in our country's history. While many important issues affect the next president, from the appointment of a Supreme Court Justice to policies on education, healthcare, immigration, and the environment, we are focused on a few basic questions: What can we expect for economic growth in the coming years and do we face a recession? What is the prospect for monetary policy and where can we see long and short term rates? What impact will rates, productivity changes, and earnings expectations have on multiples?

It is too soon to have answers to these questions and we may see surprises on Election Day. Our short-term base case is for more of the same. This translates into a decent environment for Third Point to find special situations in equity and credit markets and make long-term bets on outstanding companies.

Quarterly Results

Set forth below are our results through September 30, 2016:

	Third Point Offshore Fund Ltd.	S&P 500
2016 Third Quarter Performance*	5.0%	3.9%
2016 Year-to-Date Performance*	7.2%	7.8%
Annualized Return Since Inception**	16.0%	7.4%

*Through September 30, 2016. ** Return from inception, December 1996 for TP Offshore Fund Ltd. and S&P 500.

Portfolio Positioning

Credit Update: Dell and Sprint

In addition to Argentine sovereign bonds and energy-focused credit, we have also profited this year from several opportunities to add performing corporate credit exposure. Performing credit is interesting to us from time to time; we typically search for total return opportunities rather than screening only for yield. We will often look for longer duration bonds in a company we believe has a visible catalyst for an improvement in its credit profile. We are able to create these dislocated positions quickly – before the market catches up – by building on deep fundamental research performed by our sector specialists who work in conjunction with our dedicated credit team. Dell Inc. and Sprint Corp. are two examples that have stood out as top winners this year.

During the Second Quarter, Dell announced a large bond issuance to finance the acquisition of EMC Corp. While the Dell issuance is not a situation that would traditionally be popular with event-driven or distressed credit mandates, we believed market dynamics led the deal to price ~200bps wider than where we valued the bonds. Following its own LBO in 2013, Dell significantly improved its business through a variety of operational improvements and cost cutting initiatives. We believed the company would follow a similar playbook with the EMC acquisition and that the pro forma company would be a market leader in several areas including external storage, integrated infrastructure, and server virtualization software. Dell has stated a goal of achieving investment grade ratings within 18 – 24 months of the acquisition, setting a path to tightening in long duration bonds and to attractive returns for our portfolio.

Sprint has been another of our best performing investments this year. We were able to initiate our position at an attractive entry point in Q1 amidst the energy-driven dislocation in the credit markets and after the bonds were downgraded in February over concerns about Sprint's near-term corporate debt maturities. We believed we were protected on the downside since the company has minimal outstanding senior or secured facilities and could likely issue new bonds higher in the corporate capital structure to refinance the pending maturities. The company is also continuing to improve its business by strengthening the network in key areas, growing the subscriber base, opportunistically incorporating strategic partnerships, and executing an attractive cost of capital cycle.

Private Investments

Third Point Ventures ("TPV") was created in 2000 and currently invests in Technology, Healthcare, and FinTech companies at various stages. TPV receives all of its capital from Third Point's funds and does not currently take outside dedicated investments. TPV's aim is to produce superior risk-adjusted returns while adding perspective, ideas, and insights to Third Point's general research efforts. We have found that being able to invest across the arc of a company's life, from start-up through each stage of growth to pre-IPO funding rounds, has enhanced investor returns by exposing us to innovative new companies and thinkers. Our role as board members of these companies has introduced us to other Silicon Valley leaders, broadening our network and deepening our knowledge.

While our two full-time TPV employees sit in our Menlo Park office, private investments have been sourced throughout the firm across our technology, ABS, distressed, and healthcare teams in New York. We have a significantly higher bar for such investments given their restricted liquidity and have limited overall fund exposure to 10% of NAV. Of the 41 TPV investments made to date, 14 generated positive returns upon exit and 21 are currently active. Our current portfolio consists of 12 Technology investments, six Healthcare investments, and three FinTech investments. Privates currently represent ~6% of total portfolio exposure and we expect two of our larger investments to IPO in the next 18 months. Two of our portfolio companies, Apigee Corp. and Akarna Therapeutics Ltd., have contributed to returns this year and we have included more information about them below.

Apigee

TPV initially invested in Apigee in July 2008 when the company was known as Sonoa Systems. The company originally targeted their hardware appliance-based technology at Systems Oriented Architecture (SOA), challenging the industry-leading IBM as enterprises quickly developed to connect application elements over networks. After recognizing in 2010 that there was a transformational opportunity to apply Sonoa's core technology, Third Point Ventures helped the company rebrand itself as Apigee and pivot to a focus on enterprise digital transformation via a software platform for APIs (Application Programming Interfaces).

Since then, APIs have become the highway for the fast-moving digital economy. Apigee's industry-leading API platform enables enterprises to meet the demands of customers with scalable and flexible digital technology. API platforms allow businesses to increase innovation while adapting to highly variable customer needs by securely providing shared data and services. The Apigee Edge API Management Platform connects digital experiences in a secure environment. Apigee's API platform delivers analytics, security, developer portals, monetization, and policy enforcement. Since 2010, over 300 leading global enterprises have selected Apigee to enable their digital business, including more than 30% of the Fortune 100, four of the top five Global 2000 retail companies, and five of the top ten global telecommunications companies.

The benefits of interacting digitally drive a large market opportunity. Forrester predicts that U.S. companies alone will spend nearly $3 billion on API management by 2020. Apigee now employs approximately 400 people. Drawing investors with its attractive growth profile, Apigee completed a successful initial public offering (NASDAQ: APIC) in April 2015. On September 8, 2016, Google announced their intention to acquire Apigee for $625 million in cash. Pending approvals, the transaction is expected to close later this year.

Over an eight year period, TPV steadily assisted and guided the company as we invested in the Apigee Series B at $25 million valuation and the Series C, D, E, F, G, and H financing rounds before buying into the IPO. We have not sold shares and have remained active on the Board continuously since our first investment. Following the conclusion of the pending transaction, Apigee will have generated an IRR of ~20% and a multiple of invested capital of 2.4x.

Akarna Therapeutics

TPV was a founding investor in Akarna in Q1 2015. Akarna focuses on the treatment of Nonalcoholic Steatohepatitis (NASH), also known as fatty liver disease. Akarna was attractive for several reasons:

- Large market opportunity: Epidemiologic studies suggest that NASH affects 2 – 5% of Americans and is believed to be correlated with increasing rates of obesity, diabetes, and high cholesterol. If left untreated, NASH can lead to liver fibrosis, cirrhosis, and, ultimately, end-stage liver disease. Unfortunately, there are no currently approved treatments for NASH.
- Derisked mechanism of action: Clinical trials with bile acids have validated farnesoid X receptor agonists as a viable therapeutic agent based on clinical and histological biomarkers of the disease. These trials have also demonstrated a clear need for treatments with still improved efficacy and better side effect profiles.
- Active area of business development: Over the past few years, the sector has seen burgeoning interest in NASH assets with partnerships or acquisitions (e.g., Gilead / Nimbus, Merck / NGM) occurring at attractive valuations.

The team at Akarna identified a potentially best-in-class lead candidate with an attractive pre-clinical profile in *in vitro* and animal studies. Akarna also secured a broad intellectual property portfolio around the lead compound family.

In August 2016, just 18 months after Akarna was founded, Allergan acquired the company for an upfront payment of $50 million and undisclosed potential clinical, regulatory, and commercial milestones. For Third Point Ventures, our share of the upfront payment reflects a total return of 3.1x our initial investment. If Allergan successfully develops and commercializes the Akarna drug, the total return on our investment could be meaningfully larger.

Sincerely,

Third Point LLC

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