THIRD POINT

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Fourth Quarter 2017 Investor Letter

Annual Review

Some time ago, we became aware of the importance of running our fund like a business rather than an entity that simply makes a sequence of profitable trades that are strung together to create a track record. Part of this involved creating a best in class operating team that pushes past best practices to set a standard in industry excellence. On the investment front, we realized that we needed to define a framework and devise replicable processes that, over time, would deliver the returns that we and our partners demand.

A *replicable* investment process is not static. Every year, we incorporate new elements, like data science, improved risk management technology and systems, and enhanced macro research capabilities, to name just a few. While our investments today share many of the same characteristics as they did during our early days, our process for portfolio management, identifying ideas, and developing conviction has evolved substantially. Ultimately, our processes and organizational structure are dictated by a culture which emphasizes transparency, collaboration, honesty, and dedication to continual individual and organizational improvement.

In 2017, we generated net returns of +18.1% in the flagship Offshore Fund. Equities contributed 93% of our total return. We believe our strength in this area was partially due to a transition we started in 2009 of shifting our team from generalist analysts to sector or asset class specialists. We now have ten industry/asset class teams led by seasoned veterans with an average tenure of more than eight years at Third Point. The past few years of improving on this model bore fruit in 2017 with strong returns diversified across all equity sectors leading to an equity RoA of +28.9%. Our top ten winners included three industrials positions, two consumer names, two technology investments, two financials holdings, and a healthcare investment. This model is important for two additional reasons:

1) the volume of strong, risk-adjusted ideas in 2017 was high; 2) we were able to hedge positions with individual equities rather than indices, meaning our balance of cyclicals and defensives protected us during factor-based sell-offs and allowed us to comfortably have net equity exposures of ~68%. Our credit portfolio also provided gains despite a rich market, returning +17.1% on average exposure versus the IBOXX HY Index's +6.3% return.

We have increased our focus on short-selling over the past two years. We have a specialist short-selling team in addition to sector analysts who regularly produce short ideas. In 2017, our single name shorting effort was good, generating only -7% in losses relative to the S&P's +21.8% gain. The dedicated short selling team did even better, with absolute returns of +13% and +35% of alpha by focusing on idiosyncratic factors ranging from misleading accounting to outright fraud to trends across industries such as: the confluence of oversupply and waning demand; the loss of pricing power due to changing consumer behavior and the disruptive effects of technology; and, the exhaustion of equity stories based on serial acquisition behavior, earnings adjustments, excessive cost cutting, and financial engineering. We believe that the prolonged environment of low interest rates has likely created excess capacity in many industries and that this will have unintended consequences for companies' pricing power and margins, creating an abundant opportunity set for short-selling in 2018 and beyond.

The rollout of our data science team in 2017 brought new energy to our technology initiatives and improved how we share information. Our investment team structure – a single group working together to generate bottom-up ideas for one portfolio – relies on open communication and natural information flow. Our data science team's contributions in its first full year were not only to areas an outsider might expect – such as credit card data, mobile foot traffic data, job postings, etc. – but, as importantly, to refreshing how we communicate and share information.

Third Point's key value is continuous improvement and we are confident that our focus on this principle will continue to yield favorable outcomes over time.

Quarterly Results

Set forth below are our results through December 31st and for the year 2017:

	Third Point Offshore Fund Ltd.	S&P 500
2017 Fourth Quarter Performance	3.1%	6.6%
2017 Performance*	18.1%	21.8%
Annualized Return Since Inception**	15.8%	8.2%

*Through December 31, 2017. **Return from inception, December 1996 for TP Offshore and S&P 500.

Macro Review and Outlook

Strong global growth, tepid inflation and the rollback of the Administrative State created a benign environment for equity investing in 2017. Global growth was boosted by easing financial conditions resulting from the Fed's decision not to follow through on its expected rate hikes and by China's credit and fiscal stimulus. The breadth of global growth translated to similar strength across most global equity indices and sectors. While such growth was a natural outcome of easing financial conditions, the big macro surprise of 2017 was the reversal of the upward trajectory of U.S. core inflation. This turnabout – coupled with the stalling of tax and health care reform legislation earlier in the year – was a recipe for the consensus trades of early 2017 to go wrong. Contrary to expectations, the U.S. Dollar plunged, U.S. rates failed to march higher, tech put up its best year since 2009, and U.S. equities fared strongly against their foreign peers, especially in risk-adjusted terms.

For 2018, the key question is to what extent the benign environment can persist. While growth is unlikely to accelerate much further, easy financial conditions and pending fiscal stimulus can sustain growth around current levels. Inflation is likely to drift up only modestly and remain at or below central bank targets. In the U.S., where we are primarily focused, we see indications that the favorable backdrop for our investment approach will continue due to a variety of factors: easy financial conditions, tax cuts and fiscal spending, increased capex, and deregulation. Specifically, we think that:

1) Easing financial conditions are a key pillar of growth. The current U.S. financial conditions impulse of ~1.0% is the greatest since 2009 and expected to support growth near the current above-trend pace during at least the first half of 2018.

2) The tax cut and increases in fiscal spending could boost GDP growth by ~1.0% (relative to trend growth of ~2.0%). The key point is that a gradually waning financial conditions impulse over the course of 2018 can be offset by a fiscal stimulus impulse, which thereby can keep growth at an above-trend pace for longer.

3) Capex has room to surprise to the upside in 2018 for a variety of reasons. The economy is entering the later part of the cycle, during which rising wages tend to accelerate capex. Free cash flow is high while CEO confidence and capex intention surveys are at their most bullish levels since 2004. The recent tax deal further incentivizes capex through a) its stimulation of aggregate demand, which leads to higher investment via a feedback loop, b) the cut in the corporate tax rate, which increases the after-tax return on capital, and c) accelerated depreciation allowances. With low- to mid-single digits nominal capex growth embedded in bottom-up estimates, the bar for positive surprises is low. Higher capex could galvanize a cyclical rise in productivity, which has recently started to rebound from generationally-low levels.

4) The impact of deregulation is difficult to estimate but important to study. The Trump administration has promised that its ratio of eliminated regulations to new ones will be 2:1 and, so far, it seems to be on track to meet this goal. Bank regulation is unlikely to become tougher and might relax at the margin, as in the case of the Volcker Rule. Deregulation could lift potential growth, possibly at the cost of increasing financial stability risk later down the road.

While we remain optimistic about the trajectory of the economy and markets, we have weighed our positioning with an acute awareness of the risks. Although we do not fear a

recession now, "event risks" need to be considered. The four issues we are most closely watching are:

1) The unusually favorable combination of accelerating growth and tepid inflation seen in 2017 is unlikely to repeat. Historically, the best time for markets is when growth is accelerating. Since growth is already at a high level, further acceleration is less likely. That means that average returns will likely be lower and volatility higher this year than in 2017.

2) While inflation is likely to drift up only gradually, as the events of 2017 have shown, forecasting inflation is anything but simple and the market's reaction to higher-than-expected inflation readings is hard to predict. Low inflation has been a critical support for the market because it has allowed the Fed to be unhurried in its rate normalization, which has kept long-term rates subdued. We are watching closely to see how a tightening labor market and recently announced wage hikes will shape the future path of inflation. Labor's inability to gain pricing power so far in this cycle has been a key pillar of the market's bullish equity story.

3) Earnings growth has been strong, supporting the market and P/E multiples. In both absolute terms and relative to expectations, the momentum of earnings growth is at a peak and its normalization could create greater volatility compared with the tranquility of 2017.

4) The odds of a recession over the next one to two years are low due to a) the current strong level of growth supported by easy financial conditions, b) the growth support from tax cuts and fiscal spending, c) the low level of the real Funds rate, and d) the lack of major macroeconomic imbalances such as excess credit growth or overinvestment. Sometimes, however, recessions are caused by unanticipated events. A recession would come as a surprise to investors and would likely lead to a substantial market decline given the expansion in valuations in recent years and the

concern that the Fed would not have enough ammunition to sufficiently stimulate the economy.

We believe that our relatively concentrated portfolio of event-driven names is well-positioned considering the conditions we have described. While short-selling is always particularly challenging in a bull market, we think that the special situations we have selected in this area will underperform markets and reduce our overall correlation, dampen volatility, and generate alpha.

Portfolio Update: Nestlé

Since we originally outlined our investment thesis to investors last June, Nestlé has responded by taking several logical steps to create stakeholder value. Our periodic interactions with Nestlé management have been well-received and we expect our dialogue to continue.

We wrote in June that Nestlé needed to focus on four areas to improve its performance and reposition the company for continued success: 1) reaccelerate sales growth and improve profitability; 2) optimize balance sheet efficiency and return capital to shareholders and thus improve measures of return on capital; 3) reshape its portfolio through acquisitions and divestitures; and 4) monetize its non-core, financial investment in L'Oréal.

In the months since, Nestlé's CEO Dr. Mark Schneider has laid out his vision for the company and begun to take needed steps to move the company forward. He made a commitment to reaccelerate organic sales growth to mid-single digits and set a formal margin target of 17.5% to 18.5% by 2020, announced a CHF 20 billion buyback, and articulated plans to make portfolio adjustments worth as much as 10% of sales. Nestlé also recently announced plans to add three well-regarded outsiders to its Board at this year's Annual Meeting.

These actions are important steps in the right direction that make it clear that Nestlé is responding to calls for action. While we recognize that Nestlé has certain unique cultural

and structural constraints, we hope now that Dr. Schneider has completed his first year and there is new blood on the Board, the company is able to move with greater alacrity. In particular, we believe Nestlé should:

1) Clarify its corporate strategy: Nestlé defines itself as a company focused on "nutrition, health, and wellness," but many of its assets do not align with that vision. Within food and beverage, which accounts for 95% of sales, many products like ice cream and frozen pizza do not meet the company's brand aspiration of being "better-for-you." Within health sciences, which contributes 5% of sales, forays into "skin health" seem unrelated to Nestlé's core business and like a costly mistake that should be unwound. We believe Dr. Schneider has an opportunity to better align the company's strategy with its stated objective by addressing these and other inconsistencies.

2) Accelerate portfolio change: Nestlé has an opportunity to move with greater urgency to complete its targeted level of "portfolio adjustments." To its credit, it secured a very attractive price (more than 3x sales) for its U.S. confectionery assets, but that business makes up approximately 1% of group sales. Based on Dr. Schneider's remarks at Nestlé's September Investor Day, we expect a decisive disposal of other ill-fitting businesses. Similarly, Nestlé needs to move faster to increase its exposure to the high-growth categories highlighted by management, namely coffee, pet care, water, and nutrition. These categories are growing faster and have higher margins than the rest of Nestlé's portfolio, are on-trend with modern consumers, and lend themselves well to premiumization over time. However, acquisitions in these areas have, so far, been limited to a few small deals. We would also like Nestlé to better explain to shareholders the rationale behind expanding further into consumer health care. The recent acquisition of Atrium Innovations (a Canadian vitamin maker) and rumors that the company is bidding on larger assets in this category have left some shareholders confused.

3) Deploy the balance sheet: Nestlé also has the opportunity, given its unlevered balance sheet, to accelerate and even expand its buyback program ahead of a large expected improvement in earnings growth. After five years of subpar performance, the market remains somewhat skeptical of the company's ability to reaccelerate sales growth and improve margins in line with announced targets. As a result, shares remain attractively priced relative to what the company could earn in 2020 and beyond. If management is as confident as we are in its ability to execute, then it should move quickly to retire shares now, i.e., before the stock price better reflects the company's improving fundamentals. Importantly, Nestlé can do so without impacting its ability to consider deals (even large ones) since leverage remains below 1.0x.

4) Monetize the L'Oréal stake: Finally, Nestlé needs to conduct a thoughtful review of its financial stake in L'Oréal. While the investment, made in 1974, has produced excellent returns historically, that alone is not a sufficient reason to maintain the status quo. Today, it is simply unclear how owning a minority stake in a beauty business makes Nestlé a stronger "nutrition, health, and wellness" company. We continue to believe that this financial investment ought to be monetized and that there are better uses for this capital.

We continue to support Dr. Schneider and Nestlé management and believe that the additional strategic, portfolio, and financial improvements we have outlined, and which we hope are already in process, will drive substantial benefits for all Nestlé stakeholders. They will result not only in greater capital appreciation and faster dividend growth for shareholders, but also in more resources for the company to invest in the business and communities in which it operates.

Sincerely,

Third Point LLC

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