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Fourth Quarter 2019 Investor Letter
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During the Fourth Quarter, Third Point's Offshore Fund gained 3.9%. Since inception in 1996, Third Point Offshore has generated a net annualized return of 14.5%.

	Q4	YTD*	ANNUALIZED RETURN†
THIRD POINT OFFSHORE FUND, LTD.	3.9%	17.1%	14.5%
CS HF EVENT-DRIVEN INDEX	2.2%	8.2%	6.9%
S&P 500 INDEX (TR)	9.1%	31.5%	8.5%
MSCI WORLD INDEX (TR)	8.7%	28.4%	7.1%

* Through December 31, 2019.
† Annualized Return from inception December 1996 for TP Offshore and quoted indices.

2019's returns were generated with roughly half of the market's exposure. We started the year with lower nets and increased exposure towards year-end. Profits were generated primarily by activist positions.

Heading into 2019, we reduced net and increased gross equity exposure by hedging activist positions and increasing individual shorts to dampen volatility, amplify idiosyncratic returns, and thereby increase alpha. These changes helped us generate higher-quality returns last year: our Sharpe ratio was above 2.0, our Sortino ratio was 2x its historical average, and our average volatility was slightly above 7. We are pleased that thoughtfully optimizing portfolio management led to more alpha generation, differentiated returns, and less market exposure.

We also focused on core strengths including activist investing and acquiring stakes in high-quality companies during significant market selloffs. As we have written about previously, activism, which is now over 50% of equity exposure, has been a source of outsized returns for us since 2011 and has become a more valuable strategy in a changing market environment. We have allocated internal resources to sourcing and implementing activist and constructivist ideas and increased exposure to these names.

In credit last year, an oversized position in Argentine government debt more than offset gains in Pacific Gas & Electric corporate debt and detracted from overall fund profits for the

year. These losses put a dent in a string of successes investing in sovereign debt since 2011 in Greece and previously in Argentina. As we wrote in our last letter, we realize in hindsight that we took our guard down a bit too much and did a poor job of calculating both the political risk and the reflexive reaction of the dollar-denominated debt to the collapse of the local currency. In structured credit, we had a good year in RMBS securities but gave some profits back in marketplace lending. Structured credit offers an important source of diversification and continues to generate excellent returns per unit of risk. We are looking currently to expand our credit efforts broadly in capital, resources, and talent as we prepare for the next credit cycle.

Shorting was challenging in 2019 given the market's sharp rise. Factor moves in the fall evaporated alpha generated earlier in the year. Our losses in shorting were roughly as expected considering market performance but the effort succeeded in reducing our volatility, beta, and correlation. We believe that better integration of market and factor observations into our fundamental lens, as we have done in long equity investments, will help protect alpha in the future.

2020 Outlook

We enter 2020 with friendly monetary conditions and a benign economic backdrop that has driven the market higher in the first weeks of the year. The conditions remind us of 2016 when the PMI reaccelerated due to Chinese stimulus. This year, it is the US Fed's rate cuts that are delivering substantial easing that should boost growth. We have seen recent stabilization in manufacturing data after an earlier decline but have not yet started to see acceleration. We are wary of many factors that can possibly upset the current goldilocks environment, chief among them the further spread of the coronavirus, derailment of further Chinese trade negotiations, a political upset from the far left in the US Presidential election, or further escalation of tensions in the Middle East.

Another key variable that could change the relatively sanguine environment is inflation. The data is currently telling us that inflationary pressures are muted. We do not see significant imbalances in the private sector that could trigger a recession. The Fed has said it will be patiently waiting for inflation to overshoot, which makes the current case for equities compelling, but a sudden turn in inflation could lead to a backup in rates and cause market pain.

Position Updates: Sony and Campbell

In 2019, two of our core strategies combined in new constructive holdings in EssilorLuxottica and Sony, where we were able to initiate positions at attractive levels by acting as liquidity providers during temporary dislocations.

We invested in Sony in Q1 2019 when shares traded down on market fears that cloud gaming posed a substantial threat to the company's PlayStation franchise and overall gaming business. While the market saw only risks, we saw an incredible collection of media assets: the world's largest video game platform, a top-three music label, and a top-five Hollywood film studio. Hidden behind the media empire was an underappreciated, best-in-class semiconductor business. We also saw a capable management team open to improving shareholder value and willing to listen to our suggestions about how the company could reach its full potential.

As is often the case with conglomerates, concerns over a single business impaired total value, giving us the opportunity to purchase shares at a large discount to our view of intrinsic valuation. The rest of 2019 proved excellent for Sony. Fears around cloud gaming were overblown. Sony's semiconductor business has grown from ~15% of profits to ~25% and analysts expect semis to be a core driver of Sony's growth going forward. Gaming profits were down only slightly ahead of a major product launch this holiday season, the PS5, after which most analysts expect Sony gaming to return to growth.

While business performance has been stellar, we believe true value maximization at Sony is only beginning. Out of Sony's four major non-core publicly listed stakes, the company has divested only one of its smallest, Olympus. Sony has yet to outline a clear strategy for its remaining ~$14 billion in public stakes, largely concentrated between Sony Financial and M3, but has indicated that it will do so. Sony has avoided the topic of portfolio optimization, but we continue to believe that Sony's media and semiconductors franchises can stand alone and create more value independently than together.

One of our biggest winners in Q4 and 2019 was Campbell, which gained over 6% in Q4 and 55% overall in 2019. Our initial foray into Campbell was met with skepticism, both in terms of the difficulty in effecting change in a family-controlled board and the seeming difficulty in turning around what most thought was a moribund and declining business. We saw things differently and created an opening for an attractive settlement with the board by securing support from all proxy advisory firms and building consensus among non-family shareholders around the need for change.

The Board has been refreshed with the addition of three directors – two former packaged food CEOs and a marketing guru. The senior leadership team has been upgraded with the appointment of a new CEO and CFO. The balance sheet has been repaired with the divestiture of non-core fresh food and international snacks businesses for more than $3 billion, which reduced leverage from ~5x to 3.5x. The core business has stabilized, providing a stronger foundation on which to build. And, a compelling multi-year turnaround is now underway to return the company to sustainable sales and earnings growth.

CEO Mark Clouse, who is only one year into his tenure, has demonstrated how powerful leadership working with an engaged board can revitalize a company. During the most recent quarterly call in December, Clouse was upbeat about the potential for top line growth in 2020, which is key to the next leg of the story. Given strong 2019 performance, we took some profits and reduced our position to below 5% of the company, however we remain enthusiastic about Clouse's leadership and Campbell's future and are pleased to have played a role in repositioning this iconic company.

Two Steps Forward, Two Steps Back on Governance in 2019

Issues of governance and corporate social responsibility are currently ubiquitous. Last August, the Business Roundtable ("BRT") released a statement that "Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'." Signed by 181 CEOs of some of America's largest companies, the statement overturned Milton Friedman's five-decade dominant doctrine of shareholder primacy – which states that corporations exist principally to serve shareholders – and instead outlined an alternative "modern standard for corporate responsibility." The statement suggested that corporations owe an obligation not only to shareholders but also to other stakeholders including employees, suppliers, customers, and communities. To us, the objective of a corporation was always to serve the interests of its various stakeholders. We support companies that articulate how they meet customer needs with quality goods and services; foster diversity and inclusion; offer competitive pay, health benefits, and a nurturing environment for employees; adopt measures that reduce carbon footprints and minimize environmental impact; and, behave in a noble manner in their communities not only by providing jobs and economic growth but also by encouraging employees and leadership to engage in civic projects. From a shareholder perspective, this is simply good business.

As a firm at the forefront of the better corporate governance movement, we naturally applaud the focus on the "G" of ESG. Fortunately for our business model, some corporations

and other actors still seem conflicted about fully embracing a more transparent, shareholder-empowered, modern governance regime. While the fourth pillar of the BRT's statement is a commitment to "*generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders*," some of the statement's signatories are currently pressing for regulatory action that is opposed to this principle.

A proposed rule currently being debated by the SEC – *File No. S7-22-19, "Amendments to Exemptions From the Proxy Rules for Proxy Voting Advice"* – is an end run around shareholder rights supported by some of the same corporate interests who made the August statement. It would fundamentally alter SEC regulations governing proxy voting recommendations. Proxy advisors like ISS and Glass-Lewis are paid for impartial and comprehensive research into proxy proposals by asset owners who hold equities on behalf of individual and institutional clients. Some firms vote based exclusively on these recommendations. Certain asset owners do their own research also and do not always vote in line with the proxy advisor recommendations.

The supposed justification for the SEC amendment is a claim that proxy solicitation firms frequently base their analysis on inaccurate information. Independent data shared to support these claims is thin, but the proposed rule nevertheless exacts a substantial toll on the proxy firms. The new rule would require them to subject their reports to both fact and opinion checking by the companies themselves before publishing their proxy recommendations or face serious legal jeopardy.

Every activist investor seeking to place directors on a public company board presents to the proxy advisors. Such presentations are rigorous and lengthy. In our experience, the proxy advisory firms are well-prepared, sharp, and challenge our assumptions. Sometimes they support our full slate but more often they do not. It is hard for us to believe that their reports are littered with inaccurate or misleading information, as proponents of the rule allege.

The window for issuing reports is very short. One can easily imagine that the proxy firms will find themselves in an untenable position. As corporations argue for interpretations of fact or a recasting of opinions to be more favorable to them – by advocating for the selection of their own performance metrics, for example – the proxy firms will be scrambling to publish their recommendations under the threat of litigation if they reject the corporates' assertions. This threat should not be underestimated. Under the proposed rule, the advisors can be subject to lawsuits even after a company blesses the report. Proxy advisory firms are small potatoes compared to large corporations and should not face an onslaught of litigation

for research and recommendations designed to educate the market. Endless litigation could easily drive proxy advisory firms out of business entirely or more likely force them to defer to the corporate party line to avoid proliferating lawsuits.

With all there is to do to police markets, why would the SEC adopt a cumbersome and costly solution when no one has demonstrated that a real problem exists? An article published by Bloomberg on November 20, 2019[1] revealed a powerful coalition is behind the effort to persuade the SEC to act. SEC Chairman Jay Clayton said in a November speech that the draft regulation had received support from hundreds of "Main Street" Americans, but Bloomberg's reporting revealed that these endorsements were actually part of a false letter-writing campaign that had been bought and paid for by corporations*: "a close look at the seven letters Clayton highlighted, and about two dozen others submitted to the SEC by supposedly regular people, shows they are the product of a misleading…public relations campaign by corporate interests."* Someone has been rigging the public debate and trying to mislead the Commission.
This is the "swamp" at its worst. Disenfranchising shareholders by giving companies more ammunition to challenge the one process beyond share price that holds them accountable – a periodic vote where shareholders can educate themselves and act to have a say on pay practices, governance issues like diversity and tenure, environmental disclosures, and otherwise – runs afoul of some of the principles embraced publicly in the August statement. It is the Main Street investor who will suffer most if corporate accountability is reduced because recommendations on proxy proposals are effectively neutered by a much-loathed American tactic – the threat of harassing litigation that clogs up courts and undermines free markets.

We are strongly opposed to this proposed rule and to the tactics behind it.

We witnessed a similar schism in Japan in 2019. Since 2012, we have cheered Prime Minister Abe's efforts to reform corporate governance to make Japan Inc. more friendly for foreign investment. Changes in 2019 were widely heralded as meaningfully modernizing Japanese corporate governance and several high-profile American activists, including Third Point, have made successful, engaged investments in Japanese companies over the past few years.

We were surprised when the Japanese parliament took steps last fall that could undermine these positive reforms by passing a bill – "The Foreign Exchange and Foreign Trade Act" – that would subject foreign investment to increased scrutiny. The provisional regulations

[1] https://www.bloomberg.com/news/articles/2019-11-19/sec-chairman-cites-fishy-letters-in-support-of-policy-change

would require foreign investors to give notice to the authorities before taking more than a 1% stake in Japanese companies in many sectors, a significant shift from the previous rule which only required notification at a 10% level. The bill's stated justification was to prohibit creeping foreign ownership of nationally strategic assets but, as in the US, there was little evidence presented that such a threat exists or could not have been addressed under existing regulations. One effect the bill clearly could have is to make it more difficult for engaged shareholders to build positions.

Non-domestic investors own almost 1/3 of the Japanese market and make up 70% of turnover on the Tokyo Stock Exchange. Some foreigners ended the year confused about whether a market that had long been unfriendly to certain investors and had seemed finally committed to modernizing – whether by discouraging cross-shareholdings, setting targets for board diversity and independence, or accepting an increasing number of shareholder proposals – was backsliding. We hope that the application of the rule, which is being carefully considered, will do less to chill corporate governance reform in practice than it seems to do on principle.

Our job is to generate a high, risk-adjusted return for our investors over a long period of time. As activist investors, we are uniquely positioned to generate better returns for all shareholders in the companies we engage with by using corporate democratic principles to push for change. We have developed a framework to more formally incorporate ESG measures into our investment process and will increasingly engage with companies in our portfolio to encourage them to adopt appropriate ESG goals. We believe that corporate democratic principles are the bedrock of our markets and are more important to stakeholders now than ever before.

Far Point Acquisition Corporation SPAC ("FPAC") Acquisition Update

In 2018, we successfully raised our first Special Purpose Acquisition Company ("SPAC") to buy a financial technology provider in partnership with the ex-CEO of the New York Stock Exchange, Thomas Farley. The SPAC raised approximately $650 million in its listing; Third Point's Funds invested $40 million in the IPO and provided a backstop mechanism described below. The FPAC team evaluated over one hundred opportunities before announcing on January 16, 2020 that FPAC would acquire Swiss-based Global Blue, the world's leading provider of tax-free shopping and payments solutions. Third Point's Funds committed an additional $100 million as part of a consortium including FPAC, Ant Financial – part of the digital payments segment of Alibaba – and other strategic partners who invested

approximately $1 billion to buy the firm, which is and will continue to be backed by Silver Lake.

SPACs are essentially an IPO substitute. SPAC "sponsors" – in this case, Third Point Funds and Mr. Farley – IPO a holding company whose assets consist entirely of cash locked in a trust account which can only be used to fund a merger with an operating company that then becomes publicly traded. The SPAC as a capital markets innovation has grown recently in popularity, with over $15 billion of equity currently in the market chasing deals. All US-listed SPACs offer investors the ability to receive cash for their shares rather than stock in the new company, meaning that deals rejected by the market may deliver significantly less cash to the seller than expected or even fail entirely if too many investors want their money back. This "redemption" feature is a serious risk that limits the appetite of sophisticated sellers to offer large, high quality assets to SPAC purchasers.

Despite a crowded market, we believed Third Point's core strengths could be used to create an innovative capital markets solution. Recognizing that some private equity managers have raised SPACs that could be viewed as a competitor to their existing funds or another revenue source for the General Partner, we structured our SPAC specifically to avoid such potential conflicts. Third Point's Funds, not the Manager or GP, hold Third Point's piece of any "promote" or incentive shares in the SPAC. This is not only good governance; we believe it promoted even better price discipline on the approval of any transaction.

We also leveraged Third Point's extensive network of world class operators and partnered with a best in class CEO with a track record of creating significant value for public shareholders. Mr. Farley ran numerous business at Intercontinental Exchanges ("ICE") prior to leading the NYSE. During his 12 years at ICE, the company's stock outperformed the S&P 500 by 520% and other publicly traded exchanges by 203%. Our extensive networks also allowed us to recruit a world class board of directors (Laurence Tosi, former CFO of Airbnb; Nicole Seligman, former President of Sony Entertainment; and retired four-star general Stanley McChrystal) who could instantly provide a target with the certainty of a blue chip public company board.

We were able to use Third Point's scale and balance sheet to solve the redemptions risk by having the funds backstop up to $430 million of cash to the sellers. This iron-clad backstop was a major innovation and part of what made our SPAC unique. As we expected, it proved critical in improving the quality of actionable targets. Beyond the backstop, we further leveraged our scale by indicating to potential targets that for the right deal, Third Point's Funds would consider investing significant additional capital. Finally, Third Point's

investment track record and public markets expertise was an attractive bonus for sellers who almost always retain a large stake in the company post-transaction.

Leveraging these key upgrades to the traditional SPAC structure differentiated FPAC from other SPACs and virtually all other exit alternatives for sellers of attractive businesses. Our ability to deliver significant "size and certainty", operational assistance, and public markets expertise was clearly recognized by potential targets and brought us to an excellent outcome with Global Blue. We believe the Third Point SPAC model is a compelling one and may provide further opportunity to generate excellent risk-adjusted returns in the future.

Business Team Updates

Priyanka Goyal joined Third Point's Capital Markets Team during the second half of 2019. Prior to joining Third Point, Ms. Goyal worked at Surveyor Capital in the technology and industrials sectors. Before Surveyor Capital, she worked at Deutsche Bank in the firm's Investment Banking division. Ms. Goyal graduated from Princeton University with a BSE in Chemical and Biological Engineering in 2016.

Aneesh Kancharla joined Third Point last fall with a focus on credit. Prior to joining Third Point, Mr. Kancharla served as an Analyst for Silver Point Capital, where he was focused on high yield and distressed credit opportunities. He graduated summa cum laude from the Wharton School at the University of Pennsylvania with a B.S. in Economics in 2017.

Parker Quillen also joined Third Point last fall. Prior to joining Third Point, Mr. Quillen was an analyst serving on Bridger Capital LLC's investment committee. He began his career in 1987 at Lazard Freres & Co's Equity Capital Markets, before forming Quilcap Corp., a short-biased equity management firm, in 1994. Mr. Quillen is a graduate of New York University with a B.A. in Economics.

Sincerely,

Third Point LLC

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