

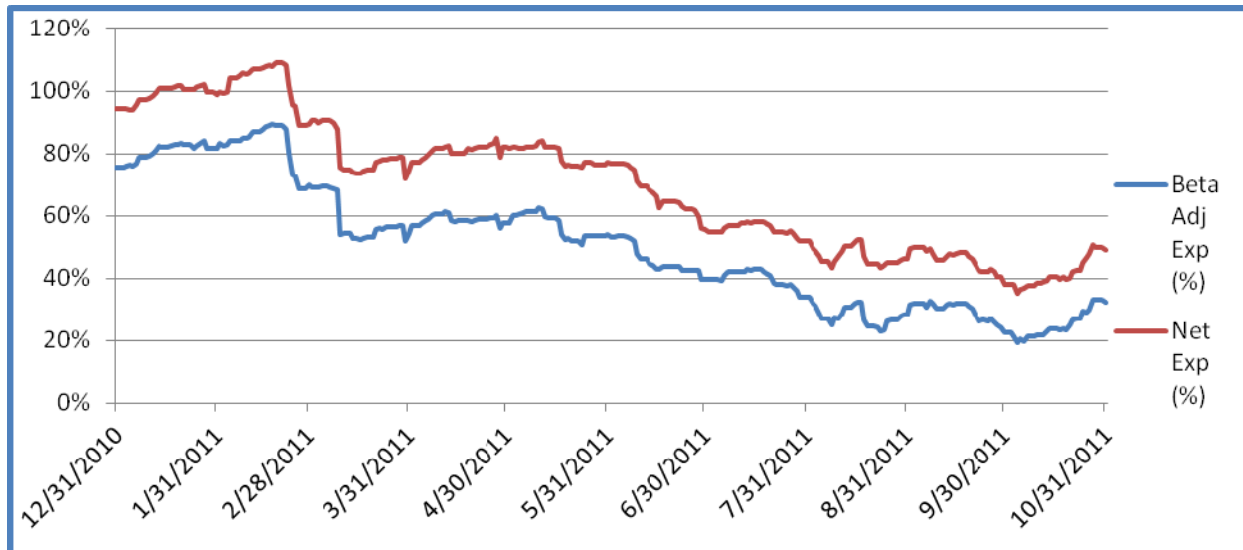
November 1, 2011

**Third Quarter 2011 Investor Letter**

Dear Investor:

Fear driven by concerns about Europe and a global economic slowdown sent markets lower during the Third Quarter. Against this backdrop, most investors retreated into a capital preservation shell, taking risk off until reason re-emerged in the markets. In our Second Quarter 2011 Investor Letter sent in July, we explained that our inclination was to be cautious in a world where the markets were held hostage by policymakers. While this view enabled us to sidestep much of the sharp decline throughout the Third Quarter, we only gradually increased our exposures near the market bottom and thus underperformed during the dramatic rise in October. While we have not generated significant gains this year, we have protected capital and exhibited materially lower volatility than the markets.

Third Point Offshore 2011 YTD Net and Beta-Adjusted Net Exposures:



The chart above shows the evolution of Third Point’s 2011 year to date net and beta-adjusted net exposures and our trend line of taking overall risk off across asset classes and geographies since mid-February, which reversed modestly over the past few weeks. This graph also provides a useful snapshot of our strategy and a reminder of our process and the framework we have created over the years to best serve it.

As our investors understand, our strategy is to be nimble, opportunistic, and special situation-focused. We are comfortable ranging freely across capital structures and geographies, concentrating investments where we see the most interesting risk/reward scenarios. These opportunities are generated from the bottom-up by an investment team that is compensated based on firm performance rather than individual profits and losses. One benefit of this approach is that we can put risk on or take it off quickly and decisively, as we have done this year and throughout our 16 year history.

Thus far in 2011 we have shifted risk in the portfolio in four distinct phases. As the graph above shows, in the early weeks of this year we were essentially 100% net long. Beginning in mid-February, we started reducing our long equity exposure primarily due to the “Arab Spring” revolutions, which prompted concerns about potential disruptions in oil supply. We reduced our exposure to cyclical and leveraged investments, including in semiconductors, financials and truckers. This wave of selling, which continued through the Japanese tsunami and earthquake crisis, resulted in relatively defensive net exposure. Later in the Second Quarter, we diminished risk by adding single name equity shorts, taking that portfolio from \$600M to \$1.6B. Through September 30<sup>th</sup>, our long and short portfolios netted nearly the same amount despite long dollar exposure of 3x more than short dollar exposure. Our average long was down 9%, while our average short was down 30% over the same period. For the third phase, as the European picture continued to worsen and the markets tumbled in August and September, we took down gross exposure, further reflecting our bearish views. Over the past few weeks, we have added some beta back to the portfolio, primarily by covering shorts, nibbling at credit, and adding to select long positions.

The main question on every investor’s mind is when we will start to significantly increase market exposure. As in past macro-driven periods of unusual market volatility, it is impossible to predict precisely when we will feel it is safe to get back in the water, although we have taken small advantage of the optimism regarding the European situation that drove October markets sharply higher. We remain patient and cautious for the moment until we determine it is time to deploy our dry powder decisively.

### Macro Hedges and Fundamental Trades

Clearly, we spend considerable time thinking about the macroeconomic environment and how to protect capital during a period where the world economy still has many pitfalls. While we have by no means become a macro fund, the more macro-oriented investments we make can be grouped loosely into three tranches. First, we have about 50-75BPS of true “tail” positions. These trades are designed to protect against massive global shocks. As a result, they are very inexpensive and the chances of payouts are remote – but if the worst comes to pass, they should return 10-20x on average. These include trades such as a de-

pegging of a Middle Eastern currency or a spike in the demand for delivery of physical commodities. Second, sometimes we will try to hedge out industry or sector risks via macro trades. Occasionally these types of macro bets are the most effective way of hedging out single name positions that are each vulnerable to a similar risk factor. A good example of this was our decision to short Aussie Dollar swaptions to protect companies we owned that had significant downside exposure if China experienced a hard landing. Finally, while we do not do this often, we will occasionally identify attractive discrete macro trades, which are more often short opportunities than long. A recent example of this was our decision to short copper prices during the last quarter due to weakness in Chinese demand. We will continue to pepper the portfolio with each of these three types of trades, which add to portfolio management during this peculiar period in the financial markets.

### **Quarterly Results**

Set forth below are our results through September 30, 2011 and a brief discussion of select positions that impacted the portfolio during the quarter.

	Third Point Offshore Fund Ltd.	S&P 500	HFRI
2011 Third Quarter	-6.0%	-13.9%	-7.0%
2011 YTD Performance	+0.2%	-8.7%	-4.1%
Annualized Return Since Inception	17.6%	4.6%	8.9%

The top five winners for the period were Gold, Peregrine Metals, Auto Supplier Short Basket, Commodity Short A, and Equity Short A. The top five losers were Delphi Corp, Technicolor, Sunoco Inc., CIT Group Inc., and The Mosaic Company.

Firm assets under management at September 30, 2011 were \$7.6 billion.

### **Select Portfolio Positions**

#### Long Equity: Yahoo! Inc.

Third Point revealed ownership of a 5.2% stake in the shares of Yahoo! Inc (“Yahoo”) in early September. Yahoo is the premier digital media company, with global reach and content leadership, growing audiences and market share, compelling international assets, and a revitalized technology platform.

Third Point's original 13-D letter and amendment filed alongside our SEC disclosure of ownership laid out our case for a targeted overhaul of Yahoo's existing Board of Directors and encouraged the pursuit of strategic options to maximize Yahoo's value. Since the filing of our letter, media outlets have reported that a strategic review process is moving forward and many parties are interested in the individual businesses and in some cases, the whole of Yahoo.

### Corporate Credit

The silver lining of the recent equity market sell-off was the emergence of new opportunities in the credit space. We had a brief window to capture credit at levels attractive enough to start rebuilding our "Bank of Third Point" credit portfolio in a meaningful way for the first time in 12+ months.

The spread on the CS HY index stood at +811 BPS at September 30<sup>th</sup>, out from only +560 BPS at June 30<sup>th</sup>. We believe the default rate implied by these spreads is relatively high given the balance sheet fortification of the last two years, but absolute yield levels remain on the low side with the high yield market still only yielding 9.3%. Against this backdrop, volatility is spiking, particularly in lower quality assets which have fallen like stones: single B credits declined 10% during the quarter and the "CCC" portion of the index was off nearly 14%.

It appears that credit focused funds (and perhaps funds with broader mandates but too much capital) may have repeated the mistakes of the last credit cycle and traded down in terms of credit quality and liquidity in pursuit of yield. We are seeing early signs of potential stressed selling that we surmise are emerging from these and other sources. We are gratified that our discipline and patience in maintaining low corporate credit exposure will be rewarded. If past credit cycles are any guide, continued patience is advisable. We remember quite well how seemingly savvy and elegant the early prints in 2008 appeared – when certain private equity firms purchased with leverage bridge loans at 10 and 20 point discounts – only to see these investments wiped away when the other shoe dropped. We are looking forward to increasing our exposure as absolute value emerges.

### Asset Backed Securities

As the markets tumbled during the Third Quarter, mortgages and other asset backed securities suffered. Falling prices brought about by the difficult technical environment masked continuing improvement in fundamentals. We have sold a small fraction of our bonds in order to reduce overall gross exposure but continue to maintain the majority of



our mortgage portfolio. Despite the difficult technical environment currently, we believe fundamentals will prevail in the long-term so we are riding out this storm.

Our portfolio still consists primarily of dented prime “Re-Remic” securities, which are priced at a mid-teens yield, and seasoned subprime securities, which are priced at a high-teens yield. We have a small number of CMBS bonds and student loan ABS. The cash carry on our mortgage portfolio is about 60-70 BPS per month.

## **Personnel Update**

We are pleased to announce that Chris Borrero joined our research team during the Third Quarter as an analyst in our Credit group. Chris was previously an analyst at Bain Capital’s credit affiliate, Sankaty Advisors, where he worked on the industrials and metals and mining teams. Mr. Borrero graduated magna cum laude from Yale University with a B.A. in Economics.

Thank you for your continued partnership.

Sincerely,

## **Third Point LLC**

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The performance data presented represents that of Third Point Partners L.P and Third Point Ultra Ltd. All P&L or performance results are based on the net asset value 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. The performance above represents fund-level returns, and is 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. Exposure data represents that of Third Point Offshore Master Fund L.P.

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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