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Fourth Quarter 2020 Investor Letter

February 10, 2021

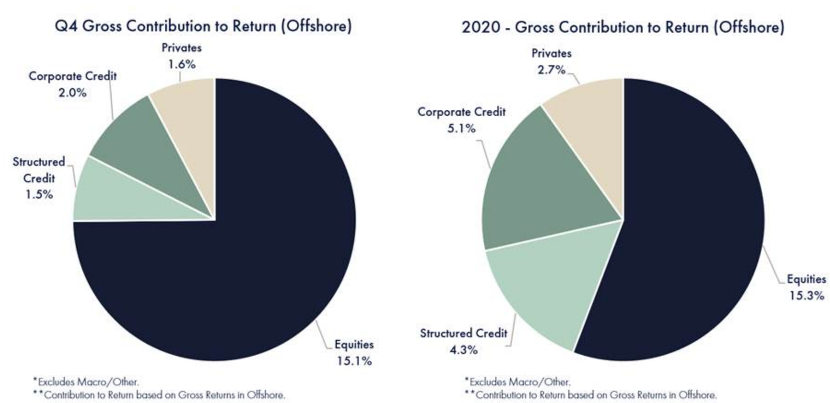
Dear Investor:

During the Fourth Quarter, Third Point returned +16.1% in the flagship Offshore Fund. For 2020, the fund returned +20.5% for Offshore.

	Q4	YTD*	ANNUALIZED RETURN†
THIRD POINT OFFSHORE FUND, LTD.	16.1%	20.5%	14.7%
CS HF EVENT-DRIVEN INDEX	10.4%	7.0%	6.9%
S&P 500 INDEX (TR)	12.1%	18.4%	8.9%
MSCI WORLD INDEX (TR)	14.1%	16.5%	7.4%

* Through December 31, 2020.

† Annualized Return from inception (December 1996) for TP Offshore and quoted indices.



Looking back at 2020, we employed all of Third Point's strategies and styles – event-driven, activist, and growth equity investing; private securities; and high yield, investment grade, and structured credit – to recover from a challenging first quarter. Our biggest winner in the Fourth Quarter was Upstart Holdings, Inc., which had a successful IPO in December. Constructive investments in The Walt Disney Company and Prudential plc were top performers, along with Pacific Gas & Electric Company, which we originally purchased as credit during its bankruptcy and now hold as equity. Another top winner in Q4 was Foley Trasimene Acquisition Corp. II's purchase of Paysafe, which we participated in via a PIPE transaction. Detractors included Alibaba Group Holding, three equity shorts, and a private credit position negatively impacted by COVID-19.

The recent short squeeze in certain securities is nothing new. Indeed, as Jesse Livermore said in Reminiscences of a Stock Operator, (quoting Ecclesiastes), in investing, "there is nothing new under the sun." As targeted securities have started to come back to earth, wiping out fortunes on the way down as they did on the way up, we can see that this was a bubble no different than other manias over time, going back to the Dutch Tulip Bulb Mania in the 17th century. What is different today, however, is the rapidity of the rise and collapse of bubbles, fueled by retail trading platforms and social media. Large short interests were also an accelerant in this conflagration. We managed to sidestep substantial losses for two reasons. The first is that we have always felt more comfortable with higher net and lower gross exposure. It is tempting to think that lower nets imply lower risk, but recent events are a stark reminder that leverage, in all its forms, is a double-edged sword. In addition, after a few previous painful experiences of our own taking positions against companies with large short interests, we had a preview of what can happen and cut our losses. Since then, we have mostly avoided taking short stakes in companies with modest liquidity and large short interests.

On the economic front, the surprising resilience of the US consumer has informed our optimism since Q3 2020 about a rapid economic recovery following widespread vaccine rollouts. Employment is still down 7% from pre-pandemic levels but jobs in sectors disproportionately impacted by COVID-19 such as retail, restaurants, and entertainment should return quickly as vaccinations ramp and consumers eagerly return to normal life. Both monetary and fiscal policy are also supportive tailwinds. We expect substantial additional stimulus in Q1 or early Q2 and the Fed remains firmly on hold, keeping nominal rates fairly low by historical standards.

Against this favorable backdrop, inflation remains a chief concern. Consensus is strong that it will remain subdued given the high slack in the labor market but, if this is incorrect, the Fed will hike rates more quickly, shocking markets and challenging the recovery. We are focused on interest rates, which will help define how and what type of assets "work" at the margin going forward. The interaction between US nominal yield, the US real rate, and the effective difference between the two (e.g. inflation expectations) is our focus. Rising rates are not bad for equities but can drive sector and factor rotation. We are looking to identify a rapid rise in rates or a de-coupling of real rates and inflation (where the former rises and the latter falls). This scenario would be bad for risk assets broadly and impact long duration assets more harshly as the discount rate inflects higher.

We are finding opportunities to merge an understanding of the broader secular trends driving the market with our ability to identify or spark catalysts. Compelling opportunities include:

- Capitalizing on our twenty years of experience investing throughout the lifecycle of a company from venture-backed inception to IPOs to listed equities. We have long relied on a similar ability to do this in credit – investing from bankruptcy to post-reorg to listed equities – and are applying this same framework to the VC to IPO pipeline, as discussed in our review of Upstart below. We see many opportunities to invest in attractive private businesses and public markets are receptive to young, high-growth companies. We hope that Upstart will be the first of many to make a significant contribution to our returns.

- As the SPAC market boomed last year, disintermediating the traditional IPO channel, we used our balance sheet, structuring capabilities, and domain expertise to partner with certain companies seeking to go public via a SPAC. We try to involve ourselves early in the process, become engaged, and partner with great operators with track records of outsized returns. We have anchored and led several PIPEs in the last two quarters and have several other active deals in our pipeline.

- Our ability to structure and syndicate ABS based on trusted counterparty relationships, domain expertise, and balance sheet strength provides us with another uncorrelated source of alpha. Positive trends should drive further gains in ABS markets and we see structured credit as a compelling post-pandemic opportunity set.

- Going into COVID, America's cash flow output (corporates and consumers) stood at a 70-year high and COVID catalyzed a further surge to an outsized 17% of GDP (~$3.5 trillion). A substantial portion of the accumulated $2 trillion of excess savings among consumers should be unleashed as the economy reopens, favoring services sectors such as restaurants, travel, and leisure. Likewise, we think the M&A market in 2021 will be robust, driven by high corporate cash levels, readily available financing at attractive rates, nearly a trillion dollars of dry powder in private equity funds, and boardroom confidence bolstered by a strong equity market.

As we look ahead in 2021, we believe we are well-positioned to use Third Point's strategies to generate strong risk-adjusted returns.

Equities Updates

Intel Corporation ("Intel")

After building a significant stake in Intel in Q4, we sent a letter on December 29th to Intel's Board Chairman, Omar Ishrak. We shared our views regarding Intel's dramatic underperformance and suggested certain steps the company could take to remedy a rapidly deteriorating outlook. We highlighted an urgent need for Intel to address its "brain drain" of engineering talent, the chief cause of the manufacturing and design deficiencies that have led to its declining market share.

Shortly after our note and engagement with the company, Intel announced it was bringing back Pat Gelsinger as its new CEO. Gelsinger is a respected engineer and manager who previously spent 30 years of his career working closely with Intel's legendary founders during the company's best days. With a background in electrical engineering and prior roles such as head of Intel's digital enterprise group, desktop products group, and Intel Labs, and as the company's first CTO, Gelsinger has the deep technical expertise needed to address Intel's current execution issues. He also has a history of success in reinvigorating major organizations. During his eight-year tenure as CEO of VMWare, he put the on-premise company on a path to the hybrid cloud and positioned it for several years of growth ahead.

Equally important, while Gelsinger is a respected engineer, he is also widely lauded as a manager of engineers. It is hard to think of a better person to motivate and inspire the best of Intel's thousands of brilliant employees who will help build the company's future.

Once Gelsinger has successfully regained Intel's position as the premier microprocessor vendor in the world, we believe the opportunity for additional shareholder value creation is enormous. The semiconductor compute TAM is over $100 billion, including CPUs, GPUs, FPGAs, ASICs, and other architectures, and growth is increasingly driven by unstoppable trends like cloud computing and artificial intelligence. Intel's human, financial, and intellectual property resources are unmatched in the semiconductor industry. The ability to leverage those resources in order to better capture the full unbounded growth of this market opportunity set makes us excited to be long-term shareholders.

Prudential plc ("Prudential")

Last month, Prudential announced plans to separate its US-based annuity business, Jackson National, via a demerger in Q2 2021 instead of through a partial IPO and sell-down later this year. Prudential also announced it will no longer be distributing all of the anticipated proceeds from the Jackson National IPO and debt-raise to the Group due to accounting changes regarding regulatory capital levels at Jackson, and is instead considering raising $2.5-3 billion of new equity capital to support the high-growth opportunities in standalone Asia. Such an equity raise will be modestly dilutive to existing shareholders.

While the market reacted with disappointment to the news, we believe this is a net positive and important step forward in realizing an independent, high-growth and high-return Asia business for two reasons: 1) The proposed demerger significantly accelerates the Jackson National separation versus the original intention of minority IPO and future sell-downs; and 2) an equity capital raise out of Hong Kong and a potential listing on the Southbound Stock Connect exchange will be an important catalyst to build liquidity among Asian shareholders.

We believe that Prudential's unique Asian franchise is substantially undervalued (especially relative to its closest comparable, AIA) and this decision, while challenging on an immediate basis, pulls forward the realization of independence and local ownership participation that is essential to achieve full value for long-term shareholders. We have also been pleased to see Prudential make substantial progress in improving its governance, especially around board talent and diversity. Shriti Vadera, who formally assumed her role as Chairwoman last month, brings a wealth of expertise in Asia strategy, capital allocation, technical innovation, and ESG. She recently recruited two new Asia-based board members who bring important skills to help guide the new Pru Asia. Chairwoman Vadera and CEO Mike Wells' commitment to long-term value creation gives us great confidence in the future of this business.

Upstart Holdings, Inc. ("Upstart")

During the Fourth Quarter, the Upstart IPO transaction was priced by Goldman Sachs at $20 per share and raised about $180 million for the company. Since the IPO, the stock has traded to $80, with a market cap of over $5.8 billion. We initially invested in the Series C round in 2015 at a pre-money valuation of $145 million and added to our investment on the IPO with the purchase of an additional 1.2 million shares, bringing our total ownership to approximately 13.4 million shares, or roughly an 18% stake.

Founded by Google technologists, Upstart launched in 2012 and originated its first personal loan in 2014. Upstart leverages artificial intelligence operating on non-traditional underwriting variables to more accurately price risk for unsecured consumer loans and, more recently, for auto loans. Through September 2020, 70% of loans through Upstart were automated and approved instantly without human involvement. In the same period, fraud loss was negligible. Compared to traditional bank underwriting models, Upstart's AI platform has yielded a 75% reduction in loss rates. Upstart's ongoing model improvements deepen its competitive moat and continually strengthen its business case. This is reflected in increased credit rate requests and increased loan conversion leading to ~87% CAGR in the total number of loans transacted.[1]

Upstart's model benefits from flywheel dynamics that should drive compounding growth through a cycle of continuous model feedback and improvement. As the platform grows, more data points (payments, defaults, etc.) are fed into the model, thus improving its accuracy and supporting additional share gain. An understanding of the opportunities presented by AI and machine learning has been an important theme we have expressed in numerous investments at the firm.

Upstart's core focus is unsecured personal loans, a market that totaled $118 billion in originations between April 2019 and March 2020. This market is rapidly growing by every measure, including new loans, number of unique borrowers, and total debt outstanding. There is a significant opportunity to expand Upstart's footprint within its core consumer lending market, as well as new markets such as auto, a market worth $625 billion in originations. In September 2020, the first auto loan was processed on the Upstart platform. Beyond personal and auto, the same AI engine could also be used for mortgage and credit card originations. Upstart is also working to deliver a competitive digital lending platform to small banks, which brings with it an expanded customer base (the typical age of an Upstart borrower is 28 years old, which is a valuable demographic), lower loss rates, and new product offerings.

Upstart exemplifies Third Point's approach to lifecycle investing. Following a lead from our Structured Credit group, which had looked at funding Upstart's loan pools, we led Upstart's

[1] This figure is for loans transacted from Q1 2016 through Q3 2020.

Series C in June of 2015 and Rob Schwartz joined their Board. Third Point delivered value on capital markets strategy, staffing, and organizational development, and eventually became a loan buyer on the platform. As Upstart grew, we maintained our ownership through further investments and placed a 10% order of the IPO in December 2020.

TP Ventures and Privates Update

Due to the IPO of Upstart, the public offering of SoFi in early January via a SPAC, and prior IPOs of Wish (ContextLogic) and Palantir, "private" investments now account for only ~6% of assets under management, down from 12% at the beginning of last year. As earlier investments mature, we will continue to make selected private investments in the main fund while decreasing our 10% threshold gradually over the next two and a half years to a guideline range of a cost basis of approximately 5-8%. We are also instituting a side pocket structure of up to 10% of assets to better match the liquidity of the fund with the duration of our private investments. We are pleased to see that the phenomenon of "compounding" that applies to securities we invest in and the accumulation of investment knowledge is also relevant to our network and deal flow in the private area. In connection with this effort, we are currently making significant investments to further the success of this business.

Credit Update

Corporate Credit and Structured Credit contributed +2.0% and +1.5%, respectively, to the firm's Q4 gross return. It is worth noting that in the month of November alone, our credit book produced gross returns of +11%. Credit markets continue to enjoy the Fed's largesse. 2020 saw record net issuance in investment grade (over $1 trillion) and high-yield markets ($150 billion) but, despite this deluge, yields ground down to all-time lows. We have not had a real distressed credit cycle since 2009, although there have been a few mini cycles where the market was dislocated for a few weeks. Capturing the returns offered by these brief windows of opportunity is challenging, but we were able to generate roughly +36% gross returns in corporate credit on meaningful amounts of capital again in 2020.

We do not expect to see a significant distressed cycle with the current central bank approach to flooding markets with liquidity during times of stress; however, we do not think business cycles are over or that credit volatility is dead. In fact, we think that volatility will increase. The COVID-19 crisis pushed absolute levels of debt and leverage far above previous records – the massive BBB universe (the lowest rung of investment grade) swelled by another $500 billion last year to $2.6 trillion. This issuance was overwhelmingly concentrated in more cyclical or secularly challenged industries that will continue to face difficulties even as the economy recovers from COVID-19. The increase in duration of the bond market will exacerbate price volatility, and higher levels of AUM per manager will contribute to bottlenecks that can be exploited by investors ready to be "liquidity providers." We again showed our strength in stepping in decisively and quickly in specific situations and general market meltdowns in 2020 and hope to have chances to work from the same playbook in 2021.

Structured Credit

Structured Credit generated a gross return on assets of +20.3% for the year and added +1.5% to Q4 gross returns. Our investment thesis in 2020 was predicated on the strength and resilience of the US consumer. We believed that the market cycle would shift from a technical selloff in Q1 to a fundamental shift in performance that could persist over multiple years. We capitalized on market dislocation throughout Q2 by purchasing RMBS and consumer ABS from sellers forced to raise cash due to excess leverage and widespread redemptions and launched a dedicated structured credit fund. As monetary and fiscal stimulus stabilized markets in late spring, we began to invest in economic re-opening trades like Hertz and aircraft ABS, which rallied in Q4 with the vaccine news. Structured credit has consistently contributed incremental, uncorrelated monthly returns to our funds.

Government stimulus and an economic shutdown created a unique recession where consumer savings increased for the first time, and financing rates are now better than before the pandemic. As a result, we are moving back to buying loans and creating our own structures. We anticipate opportunities in both mortgage and consumer loan securitizations in 2021. We also see continued deterioration in commercial real estate loans but believe that the large amount of locked-up capital raised will either hide or extend the credit losses in that sector this year.

Business Updates

We recently welcomed two new analysts to the team. Their biographies are below:

SAM CANNON: Sam previously worked at Hound Partners. He started his career as an analyst at Goldman Sachs in its Special Situations Group. Mr. Cannon graduated from the Massachusetts Institute of Technology with a B.S. in Mathematics and a B.S. in Management Science.

EMILIO LAMAR: Emilio was previously a Senior Associate at Centerbridge Partners. He also began his career in the Special Situations Group at Goldman Sachs. Emilio graduated *Phi Beta Kappa* from the Massachusetts Institute of Technology where he earned B.S. degrees in Mathematics and Economics.

Please contact Investor Relations at ir@thirdpoint.com or at 212.715.6707 with questions.

Sincerely,

Daniel S. Loeb
CEO & CIO

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