THIRD POINT

January 9, 2013

Fourth Quarter 2012 Investor Letter

Review and Outlook

Third Point's funds ended the year on an unusually strong note, generating positive returns and alpha across geographies and strategies in a flat market. Performance was driven by a large investment in Greek Sovereign debt, strong share performance by Yahoo!, a favorable market reaction to actions taken by Murphy Oil's management in response to our recommendations last quarter, and positive results from our corporate and structured credit portfolios.

We continually examine the investment mistakes we have made during the nearly 18 years since we started Third Point. These errors have taught us to focus consistently on improving our dynamic investment process. While we are pleased by 2012's outcomes, reflected by our investors' rate of return, we are conscious of the role good "luck"[1] plays and so take more pride in the successful process improvements we have implemented in recent years. Importantly, our framework encourages us to be opportunistic – investing in 2012 in sovereign debt and derivative securities like the iTraxx index when markets were at their lows and fear was at its peak. We dug deep beyond the frightening headlines and conducted in-depth research on the state of political and economic affairs globally, helping us develop a variant view and giving us confidence to deploy capital. Our ability to generate returns was boosted by a breakdown in correlations, and this shift provided the key for us to deliver alpha across asset classes, sectors and geographies. A disciplined approach to avoiding major losses resulted in only four positions that detracted more than 25 basis points from overall performance.

Concerns about the political environment, leverage and global growth remain at the forefront of investors' minds as we enter a new year. Despite these well-flagged issues, we remain confident about our ability to find idiosyncratic and uncorrelated opportunities, primarily in the United States and Europe, but also in the rest of the world. We start 2013 with our capital allocated among a host of compelling event-driven ideas, including several new positions, a few of which we discuss below.

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[1] See Michael J. Mauboussin, *The Success Equation - Untangling Skill and Luck in Business, Sports and Investing* (Cambridge: Harvard University Press, 2012). This is a Third Point "must read" for anyone wishing to understand the true reasons for success in investing.

Quarterly Results

Set forth below are our results through December 31, 2012:

	Third Point Offshore Fund Ltd.	S&P 500
2012 Fourth Quarter	9.2%	-0.4%
2012 Performance	21.2%	16.0%
Annualized Return Since Inception*	17.6%	5.9%

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

The top five winners for the quarter were Greek Government Bonds, Yahoo! Inc, Murphy Oil Corp, Delphi Corp, and American International Group Inc. The top five losers for the period were Apple Inc, Gold, Short A, Short B, and Overseas Shipholding Group Inc.

Assets under management at December 31, 2012 were $10.1 billion. The funds remain closed to new investors with limited exceptions as discussed previously.

Select Portfolio Positions: Updates

Greek Government Bonds

We tendered a significant portion of our holdings in the Greek government's debt buyback in mid-December. From a risk management perspective, tendering bonds allowed us to right-size the position in light of both the reduced size and likely liquidity of the outstanding issue and the revised risk/reward profile of the evolved investment. We still continue to own a meaningful position in the securities and find them attractive at current levels. More than ever, we are convinced that Greece will rebound strongly and we expect to participate in the Hellenic recovery both as holders of sovereign debt and through opportunistic equity investments. The Greek equity market is relatively small, but the nation is starved for capital, and we have an appetite to invest in strong businesses run by talented management teams.

Murphy Oil

As we explained in our Third Quarter Letter, Third Point initiated a significant stake in Murphy following a 3-year period in which Murphy's share price declined by ~15% while the SPDR S&P Oil and Gas E&P Index appreciated by ~49%. Our thesis was that the company had many routes to unlock latent, meaningful value, among them – and most significantly – a highly accretive spin-off of its retail business.

Two weeks after our letter, Murphy's management announced a series of shareholder-friendly initiatives that have been met with market enthusiasm. In addition to announcing a separation of the retail business via a tax-free spin, management unveiled a $1 billion share repurchase program and a $2.50 per share special dividend. While we applaud these first steps, we expect the company to announce further moves to address its still-depressed valuation, including sales of its Montney asset and 5% stake in Syncrude. Natural gas acquisition activity in Western Canada has continued vigorously since we called for the sale of the Tupper asset, and recent deals in the space have confirmed our valuation expectations.

New Portfolio Positions

New Equity Position: Herbalife (HLF)

Herbalife is a leading provider of weight management and nutritional supplements operating in more than 80 countries through a network of independent distributors. The stock declined by nearly half last month following controversial assertions made by a short seller about Herbalife's business model and practices. Third Point has a different view and holds about 8% of Herbalife outstanding common stock, which we acquired mostly during the panicked selling that followed the short seller's dramatic claims.

Based on its strong financial performance, Herbalife is a classic "compounder" – a well-managed company that sustains consistent top-line growth, has a leading market position, and steadily increases margins, earnings per share and free cash flow while demonstrating shareholder-friendly behavior. Since going public in 2004, Herbalife has increased revenue at a double digit rate for seven of the past eight years, expanded gross and operating margins, leveraged operating expenses, and introduced more premium products. Earnings per share have increased by approximately 20-50% *each* year since 2004, with the exception of 2009. Led by CEO Michael Johnson, management has also used the company's ample free cash flow to de-lever its balance sheet and shrink the share count by nearly 25%. This type of steady non-cyclical growth is hard to find and puts Herbalife at the head of the compounders' class.

With results like these, the case against Herbalife rests on a bold claim that the company is a fraud. The short seller's lengthy argument against the Company can be boiled down to three principal smoking guns: the first, a claim that Herbalife has been operating an "illegal pyramid scheme" under the nose of the Federal Trade Commission for the past 32 years; the second, that Herbalife's loyal customer and distributor base has been exploited and harmed despite the low number of consumer complaints and generous company return policies; and the third, a claim that Herbalife's products are commodities sold at inflated prices not supported by sufficient levels of advertising or R&D.

Taken in reverse order, the third claim misses an essential truth that invalidates the indictment. No one believes Starbucks is a scam because you can buy a cheaper cup of coffee at your local bodega. A key contributor to Herbalife's growth has been its distributor-led "Nutrition Clubs", where consumers can purchase single servings of the Company's signature beverages. The short seller's assertion ignores the significant value customers place on every consumer brand and its community "experience" – whether at a Herbalife Nutrition Club, a Starbucks, or a corner bar. The markup is merited by community and brand identity, not by the commodity itself.

The second claim seems similarly dubious. The FTC, by all accounts, receives a very low volume of complaints annually about Herbalife – fewer than forty per year – and we find it hard to believe the short seller's theory that hundreds of thousands of people who have been scammed supposedly are too ashamed to speak up. Herbalife is well-known for its generous return policies, buying back product from exiting distributors for up to twelve months. The Company repurchases an average of only 1% of sales volume pursuant to this policy. It is difficult for us to understand why the buyback volume would be so low if there are in fact so many unsatisfied consumers and distributors who presumably would not hesitate to be reunited with their cash.

The pyramid scheme is a serious accusation that we have studied closely with our advisors. We do not believe it has merit. The short thesis rests on the notion that the FTC has been asleep at the switch, missed a massive fraud for over three decades, and will shortly awaken (at the behest of hedge fund short seller) to shut down the Company. We find this thesis to be preposterous, particularly since the FTC has been sensitive to frauds of this kind. Since 1997, the FTC has brought 13 separate cases against alleged pyramid schemes. None of the companies that the FTC pursued had been in business for more than ten years and 11 of the 13 companies involved were less than five years old, suggesting the FTC actively protects consumers subjected to this type of behavior. The FTC has also aggressively pursued enforcement actions against similarly odious "deceptive business opportunity schemes" [see www.ftc.gov/opa/2012/11/lostopp.shtm] under the "Business Opportunity Rule" (although this rule does not apply to multi-level marketers such as Herbalife).

All multi-level marketers (MLMs) by definition operate under a so-called "pyramid" structure and have some internal consumption, facts which do not render them patently illegal, as FTC guidance makes clear. [See http://ftc.gov/os/comments /bizoprevised /comments/535221-00114.pdf]. Our analysis shows that the current, well-vetted regulatory framework provides plenty of room for multi-level marketers to conduct business legally, and we believe Herbalife operates squarely within the FTC's boundaries. For example, the company does not directly pay distributors for recruiting new ones. We also understand that Herbalife has a series of internal policies in place (based on a 1979 case involving Amway) designed to reduce the possibility of abuses that have been identified in other MLM structures.

Do such policies eliminate all possibilities of bad behavior? Most likely they do not, especially at a company with so many distributors. By the Company's own admission, past irregularities and misbehavior have been detected and corrected. While the short seller's presentation was lengthy, it presented no evidence to show that Herbalife has crossed a line that would compel regulators to shut it down. Indeed, there was very little "new" news in the presentation and when pressed in later interviews, even the short seller conceded that the FTC was not looking at Herbalife's practices. In our experience, expert regulators like those at the FTC do not respond to sudden pressure from hedge fund whistleblowers by acceding blindly to their demands. Finally, even if there were some regulatory intervention that changed how the company does business, we are comforted by the fact that 80% of Herbalife's revenues come from overseas.

So we return to our compounder thesis, available at an attractive discount, probably for a limited time only. We believe that continued strong operating performance combined with disciplined capital return could easily send the stock back towards its April highs. Let's not forget: the business itself is performing well. Volume, revenue and earnings are all growing double digits and the balance sheet is largely unlevered. Management has a history of returning 100% of net income to shareholders in the form of dividends and buybacks. If management were to deploy its existing $950 million buyback authorization in the $40-45 range (only taking leverage to approximately 1.5x), we estimate that run-rate EPS for 2013 could be $5.50-5.70 using the reduced share count. Applying a modest 10-12x earnings multiple suggests Herbalife's shares are worth $55-$68, offering 40-70% upside from here and making the company a compelling long investment for Third Point. Given that the Company has historically traded more in the 12-14x range (and traded at 16-20x earnings through much of 2011 and early 2012), the opportunity for the Company to tell its side of the story tomorrow at its Analyst Day in New York, and the significant short interest, we believe shares could even trade well above our current price target.

New Equity Position: Morgan Stanley

During the Fourth Quarter, we initiated a position in Morgan Stanley (MS), which we believe is in the early innings of a turnaround. The bank's investment banking advisory and equity sales and trading businesses – which we know well from our perspectives as both investors and long-time satisfied clients – have consistently won top three market shares and are impressively positioned. Although MS has historically failed to capitalize on its strengths, its leadership currently is focused on growing its good businesses while consolidating and successfully fixing its previously troubled Wealth Management business. In 2013, we expect Morgan Stanley to tackle its other weak business, Fixed Income, Currency, and Commodities (FICC) sales and trading. Morgan Stanley's stock currently trades at a 20% discount to tangible book (down from a 35% discount when we acquired our stake at an average cost of $16.77 per share), and we view MS at these prices as a chance to buy a free call option on a promising restructuring.

In Wealth Management, Morgan Stanley has approached the turnaround with focus and results have been encouraging. The underlying earnings power of the combined Morgan Stanley Smith Barney business can be seen in the pre-tax margin line: pre-tax margins in Wealth Management have risen from 6% in 2009 to 13% in Q3 2012, and look on track to meet or exceed management's mid-teens target for 2013. Morgan Stanley has a tougher road ahead in dealing with its FICC businesses, which are limping along with a still-bloated cost structure and anemic returns due to regulatory changes stemming from the Global Financial Crisis. Nearly two thirds of the company's Risk Weighted Assets on a fully loaded Basel III basis support the FICC businesses, which combined to generate roughly 25% of revenues[1] in 2012. In Q4 2012, two of Morgan Stanley's peers, UBS and Citi, took decisive action to restructure businesses irreparably harmed by regulatory changes. While we appreciate that Morgan Stanley finds itself in somewhat different circumstances, we still expect it to follow its peers' lead and come up with a bold fix for the struggling FICC businesses early in 2013.

If we did not believe Morgan Stanley's management was up to these important tasks, we would not own such a significant position. As they look to cut costs, we believe it is critical to set the right tone at the Board level. We were surprised to learn that in 2011, Morgan Stanley paid its average Director $357k, or 26% more than Citigroup's average Director ($283k) and 42% more than JPMorgan's average Director ($251k), although Morgan Stanley is a substantially smaller and simpler bank. One of MS's directors is familiar to us from previous corporate governance battles we have fought against moribund Boards not up to the job of turning around great institutions. We hope Morgan Stanley will show that its reinvention begins at the top, and set an example for the company by quickly revising its board practices and considering an upgrade of the composition of its board of directors to reflect best principles of corporate governance.

Finally, our enthusiasm about MS's turnaround benefits from our generally constructive macro views. We expect CEO confidence to rise and global corporate activity levels to increase markedly in 2013. Morgan Stanley, with its sterling reputation, talent pool, and record in execution in investment banking advisory and capital markets, is uniquely positioned to benefit from this improvement. Assuming Wealth Management pre-tax

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[2] Ex-DVA year to date through 3Q 2012.

margins improve to 20% by 2014, Morgan Stanley's earnings profile will shift toward a 50/50 split between cyclical, capital intensive capital markets businesses and a stable, capital-light Wealth Management business. This should lead to multiple expansion towards 12-13x P/E on projected earnings of approximately $3 per share driven by the Wealth Management margin improvement, FICC restructuring initiatives, and a stronger corporate activity environment. The combination of these factors suggests Morgan Stanley shares should nearly double from the recent $20 level.

New Equity Position: Tesoro Corporation

Tesoro Corporation is a $5.7 billion refining and marketing company with assets in the West Coast and Rocky Mountain regions of the US. Tesoro has several characteristics we like in an investment: 1) significant hidden value in high-multiple assets like retail, pipelines, and General Partner interests; 2) impending transactions/projects that are underappreciated by the market; and 3) a shareholder-friendly management team focused on creating value. While it is perhaps unusual to invest in a company following a quarter (Q3 2012) in which the stock appreciated by ~68%, we believe Tesoro remains misunderstood by the market; as evidence, current sell-side analyst price targets range from $35 to $84!

Tesoro trades at one of the lowest multiples (2.6x) in the refining sector on 2012 EBITDA, despite the fact that refining peers are currently "over-earning" due to wide LLS-WTI spreads. In contrast, the bulk of Tesoro's portfolio (West Coast) is earning margins consistent with historical levels, while the company's two Mid-Continent assets (Mandan, ND and Salt Lake City, UT) should continue to experience wide crude discounts given their niche positions and distance from coastal markets. Contrary to our expectations for other refiners, we see Tesoro's earnings rising in the coming years, notwithstanding shrinking WTI-LLS spreads. Part of this earnings growth will come from the pending acquisition of BP's 266kbpd Carson refinery. After deducting working capital and ~$1.125 billion of logistics and retail value, Tesoro paid about $50 million for a refinery that is estimated to generate $375 million of EBITDA and yield an additional ~$250 million in annual synergies. We expect this deal to be approved by regulators in the first half of 2013. Finally, Tesoro is one of the last refining companies to begin returning meaningful amounts of cash to shareholders. The company should continue to repurchase significant amounts of its undervalued stock in the near-term and subsequently use a combination of regular and special dividends to distribute excess cash to shareholders.

Using conservative assumptions, we see Tesoro generating about $9 per share in annual excess FCF on a normalized basis and our expectation is that shares can double from the current price of $40. We believe the Q3 story was only the beginning, and are happy to own Tesoro for its next few chapters.

Business Updates

New Partners

Munib Islam, Head of Equities Research, and Joshua Targoff, Chief Operating Officer and General Counsel, were made Partners of the firm at year end. They join Jim Carruthers and Ian Wallace, who were made partners in 2010.

Munib was an analyst and Head of European Investing at Third Point from 2004-2008. He returned early in 2011 and has been instrumental in investing, risk management, analyst oversight, and every major strategic project since. Munib graduated from Dartmouth College and holds an MBA from Stanford University's Graduate School of Business.

Since joining Third Point in 2008 as General Counsel and becoming Chief Operating Officer in 2009, Josh has led the institutionalization of our business into a world-class enterprise. Josh spearheaded the creation and development of Third Point Reinsurance Limited. As General Counsel, he has overseen the successful resolution of legal matters and worked alongside the analyst team as legal counsel in a variety of situations including Yahoo!. Josh graduated from Brown University and holds a J.D. from Yale Law School.

New Addition to the Analyst Team

We are pleased to welcome Louis Wang to Third Point, where he will focus on Corporate Credit opportunities. Before joining Third Point, Louis was an analyst at Silver Point Capital covering credit opportunities in the gaming, industrials and services sectors. He graduated *summa cum laude* from the University of Pennsylvania with a B.S. in Economics from the Wharton School and a B.S. in Engineering from the School of Engineering and Applied Science.

Sincerely,
Third Point LLC

Third Point LLC ("Third Point" or "Investment Manager") is an SEC-registered investment adviser headquartered in New York. Third Point is primarily engaged in providing discretionary investment advisory services to its proprietary private investment funds (each a "Fund" collectively, the "Funds"). Third Point's Funds currently consist of Third Point Offshore Fund, Ltd. ("TP Offshore"), Third Point Ultra Ltd., ("TP Ultra Ltd."), Third Point Partners L.P. ("TP Partners LP") and Third Point Partners Qualified L.P. Third Point also currently manages three separate accounts. The Funds and any separate accounts managed by Third Point are generally managed as a single strategy while TP Ultra Ltd. has the ability to leverage the market exposure of TP Offshore.

All performance results are based on the NAV 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. While performance allocations are accrued monthly, they are deducted from investor balances only annually (quarterly for Third Point Ultra) or upon withdrawal. The performance results represent fund-level returns, and are 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.

The performance data presented represents that of Third Point Offshore Fund 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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