THIRD POINT

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First Quarter Investor Letter

Review and Outlook

A benign and extended period of low market volatility ended abruptly in the first quarter of 2018. The S&P's 12% peak-to-trough drawdown during the quarter was the sharpest since Q1 2016 and the index's overall quarterly losses of 0.8% marked its weakest annual start since 2009. Third Point's performance was less volatile but the end result was similar with the Offshore Fund losing 0.6% and the levered Ultra Fund losing 1.5% through the end of March. Losses during the quarter were driven primarily by long equity investments in cyclical sectors while gains came from the short book and credit strategies. The funds were profitable in April, bringing performance to roughly flat for the year.

A shift in markets occurred in Q1. After a two-year period where growth surprised positively and inflation was benign, we began to see volatility in each of these areas. While earnings growth remains strong, investors now have to contend with increased uncertainty around appropriate multiples. One cause of this uncertainty is that, after many years of very low rates, there is finally an alternative to equities in the form of relatively riskless two-year money. We have seen the impact of this new option in money market flows where $400 billion has flooded in so far this year versus a total $80 billion of inflows in 2017. Also, as manufacturing indices (PMI's) cool from elevated levels, there is a real question about just which inning of the late cycle we are in. While we don't believe a recession is close, there is definitely a concern that it is getting closer. Each of these considerations is weighing on multiples. For investors, this means the S&P is effectively range-bound and so, to generate profits, investors will need to adjust exposures more aggressively and successfully choose winners and losers across sectors.

We have responded to this regime shift in several ways. First, we have reduced net exposure by over 20% this year. We have taken about 15% exposure out of our long book and boosted

shorts to about 25% of fund AUM. Last year's focus on short selling after several years away from the strategy was a return to our early success as short sellers. We intend to further increase exposure to fundamental single names and quant-derived baskets in 2018 and rely less on market hedges to dampen volatility and reduce net exposure.

Beyond a balanced approach to equities, we are spending more time evaluating opportunities in risk arbitrage. While credit strategies performed well in Q1, we find most corporate credit markets are too richly valued relative to equities and so we have modest exposure to the asset class. As we discuss below in our structured credit update, we have been finding fewer opportunities in RMBS after selling most of our portfolio at a profit and are currently focusing on marketplace lending deals instead.

Quarterly Results

Set forth below are our results through March 31, 2018:

	Third Point Offshore Ltd.	Third Point Ultra Ltd.	S&P 500
2018 YTD Performance*	-0.6%	-1.5%	-0.8%
Annualized Return Since Inception**	15.6%	23.2%	
Comparable S&P Annualized Return**	8.0%	7.9%	

*Through March 31, 2018. **Return from inception, December 1996 for TP Offshore; from inception, May 1997 for TP Ultra.

The top five winners for the quarter were Netflix Inc., Pagseguro Digital Ltd., Airbus SE, BlackRock Inc., and CGG SA. The top five losers for the period were Nestlé SA, DowDuPont Inc., Facebook Inc., Fannie Mae/Freddie Mac, and Vulcan Materials Co.

Assets under management at March 31, 2018 were $17.7 billion.

New Position

United Technologies Corporation

In the fourth quarter of 2017, Third Point initiated a significant stake in United Technologies Corporation ("UTC" or the "Company"), a $100 billion industrial conglomerate organized into four business units: Otis Elevator Company ("Otis"), UTC Climate, Controls & Security ("CCS"), UTC Aerospace Systems ("UTAS"), and Pratt & Whitney. UTC has strong franchise assets with leading market share within each segment but the Company's shares have lagged its industrial peers (XLI Index) by approximately 45% over the last five years. UTC fits a pattern of many underperforming conglomerates where value is diminished by the ill effects of a "one size fits all" approach to corporate strategy, incentive compensation, and capital allocation. At UTC, this has led to a well-documented history of poor management execution – exemplified most recently by the botched ramp-up of the next-generation geared turbofan ("GTF") engine – as well as market share losses and underinvestment in key business areas. We have initiated a dialogue with UTC's Board of Directors to express our concerns about the Company's weak operating performance and the inherent disadvantages of its conglomerate structure.

To reverse its years of underperformance and realize the full potential of its franchise assets, we believe UTC should split into three focused, standalone businesses: Otis, CCS, and an aerospace company ("Aerospace RemainCo") encompassing UTAS and Pratt & Whitney. In assessing the potential success of any such split, we ask ourselves two key questions: 1) are the business units and their key stakeholders better off as standalone entities; and 2) does the split create sustainable long-term value? The answer to each of these questions is clearly yes. We are encouraged that the Company's CEO, Greg Hayes, has indicated that the Board is undertaking a portfolio review. We expect that an honest process will lead the Board to the same inescapable conclusion that UTC should be split into three.

The Case for a Split

As standalones, each of these businesses will benefit in the long run from a bespoke corporate strategy, more flexibility in allocating capital, better alignment of management

incentives, a dedicated board of directors with relevant industry experience, and greater strategic optionality. The value creation from spin-offs has been well documented in academic studies and has many relevant precedents in the industrial sector including Danaher/Fortive, Ingersoll-Rand/Allegion, Northrop Grumman/Huntington Ingalls, ITT/Xylem/Exelis, and Tyco/Covidien/TE Connectivity. Beyond these spin-off benefits, we believe the split would also highlight to the market the overlooked value of the GTF program currently hidden within UTC.

The profitability of the GTF program will inflect positively as the GTF moves down the manufacturing learning curve and the highly profitable service revenue stream ramps with the installed base. Management has assessed the net present value of the GTF program at approximately $15 billion[1] or $19 per share. Giving credit to GTF's NPV rather than capitalizing today's ramp-up losses of $1.2 billion would lower UTC's headline valuation multiple of 11x forward EV/EBITDA to just 9x forward EV/EBITDA. The average forward EV/EBITDA multiple for the US large-cap multi-industry peer group is 13x or ~40% higher.

We believe such a significant disconnect exists because – in addition to issues with management execution – UTC's current investor base is misaligned. Multi-industrial investors (a sector defined by low earnings volatility) value companies primarily on multiples of next year's earnings and cash flow. Aerospace investors, on the other hand, tend to look through new program start-up losses once they are comfortable that peak losses and subsequent profit improvement are in sight. One clear example of this is Rolls-Royce. If Rolls-Royce were a subsidiary of UTC, it certainly would not be valued currently at $23 billion or 36x forward P/E.

Even before giving credit to GTF's NPV, a three-way split would unlock in excess of $20 billion of value (>20% of market cap), net of separation costs. All three standalone entities

[1] "The reality is just those 7,000 [GTF] engines we have on the order book today will generate more than $7 billion of positive value. Not negative. And by the way, that's not the end of it. It's not going to be that we are done with 7,000 engines. That number is going to grow to 15,000 or more by the time we are done" – Akhil Johri, UTC Investor Day, 3/10/16

will likely trade at higher multiples than the lowest common denominator assigned to the current UTC conglomerate. Otis peers Kone and Schindler trade on average at 15x forward EV/EBITDA. CCS peers, Allegion, Ingersoll-Rand, and Lennox[2], trade on average at 13x forward EV/EBITDA.

The remaining aerospace company would be the only liquid, US large-cap aerospace supplier other than TransDigm, which trades at 15x forward EV/EBITDA. Other US large-cap aerospace investment opportunities are limited to Boeing and Honeywell (only ~40% aerospace), which trade at 14x and 15x forward EV/EBITDA[3], respectively. The Aerospace RemainCo will warrant a premium multiple due to synergy potential from Rockwell Collins and Pratt & Whitney's depressed earnings. If Pratt & Whitney achieves an 18% EBIT margin by 2025, which management cited as a target, it will generate approximately $6 billion in EBITDA, which compares to $2.3 billion this year. Assigning a 13x EV/EBITDA multiple to Aerospace RemainCo after stripping out the GTF losses yields a UTC sum-of-the-parts valuation over $190 per share[4] by year-end 2019. We see further upside to $210 per share if investors give credit to GTF's positive NPV.

UTC's management has acknowledged the disconnect between the Company's intrinsic value and share price but it seems less open to a three-way split solution than shareholders might expect. Management's initial assessment of dissynergies and one-time separation costs was surprisingly high, particularly considering that at the Investor Day in March 2018, Greg Hayes described each business unit as having "all the infrastructure and all the SG&A they need to run on a day-to-day basis." He claimed that the one-time separation costs "could be $2 billion to $3 billion", citing debt refinancing costs as the largest contributor. However, after reviewing UTC's credit documents, we believe that the Company's debt with maturities between 2020 and 2027 could be refinanced with total costs (make-whole payments and fees) of approximately $200 million, and that the Company could elect to keep the post-2027

[2] Excluded Johnson Controls from CCS peer group due to secularly challenged Power Solutions division.
[3] Honeywell EV/EBITDA and aerospace percentage is pro forma for recently announced spin-off transactions and reflects new pension accounting standard (ASU 2017-07).
[4] Per share values include UTC dividends. Assumes $1 billion of GTF losses in 2020.

maturities with the Aerospace RemainCo for no additional costs. Debt to be issued for the Rockwell Collins deal also can be structured to minimize refinancing costs.

As far as dissynergies are concerned, Hayes has also given imprecise numbers ranging from $100 million in 2015 to as much as $250 million in 2017 to set up standalone businesses[5], showing a lack of precision that belies a serious approach to considering how best to create shareholder value. Our assessment of dissynergies is significantly lower based on both a top-down review of precedent spin-off transactions as well as a bottom-up assessment of required new public company costs to replicate treasury, tax, pension, and shared services provided by UTC corporate. For example, Danaher's separation of Fortive resulted in less than $50 million of incremental corporate costs between the two entities. Honeywell stated that new public company costs for its two spin-offs will not exceed the existing corporate cost allocation. Furthermore, Honeywell has committed to eliminate any stranded corporate costs at its RemainCo within two years. UTC management ought to adopt best practices and demonstrate lean leadership in order to create shareholder value.

Third Point did not invest in UTC for what it is today but for what it could become. We intend to work constructively with the Company to see the portfolio review conclude successfully. We have shared our views in a more detailed letter to the Board. We are confident that, as fiduciaries focused on creating long-term value, they will come to agree that a separation into three major business lines will create focused companies better able to adapt to the challenges within their respective industries and encourage proper investment, driving meaningful value for all of UTC's stakeholders.

Equity Updates

Our portfolio contains several investments in cyclical companies undergoing M&A transformations that we believe are not yet fully appreciated by shareholders. Such pro

[5] Hayes stated on the 2nd quarter earnings call in July 2015 that incremental corporate costs determined for Sikorsky in the event of a spin would have been "about $100 million". The costs "to set up a standalone public company" ballooned to $200 million to $250 million during the EPG conference in July 2017 but were dialed back to $200 million at the Barclays conference in February 2018.

forma situations typically offer attractive entry points as impatient markets miss a value synergy story that is 12 to 24 months from completion. The companies we own are attractive because they have been punished by then recent cyclical unwind driven by the belief that we are close to the end of the cycle, making their valuations very compelling. We have held a number of these situations in our portfolio for over a year and we share updates on them below.

DowDuPont ("DWDP")

DWDP continues to be one of the fund's largest positions. We remain confident in the underlying business fundamentals and CEO Ed Breen's plan to create value. Despite a series of positive developments following the merger's close last August, the discount to intrinsic value has widened. Several prominent sell-side analysts have noted the similarities between DWDP's three future spins (Materials Co, Specialty Co, and Ag Co) and three publicly traded peers: LyondellBasell, 3M, and Monsanto. Consensus 2020 EBITDA for DWDP is $23 billion – coincidentally the sum of 2020 estimates for LYB, MMM and MON is nearly identical at $22.5 billion. However, the combined enterprise value for these three companies is $234 billion, about 40% higher than DWDP's current enterprise value of $167 billion. Simply applying a similar EV to DWDP (which we believe is justified) implies a stock price of $92, nearly 50% higher than current levels. We expect this value gap to close over the next 12 months as synergies are realized and the three spin-offs are finalized.

Lennar

We have long considered Lennar, which is led by Executive Chairman Stuart Miller, the best homebuilder managed by the best team of industry veterans. We initiated our investment shortly after Lennar announced its acquisition of its peer, CalAtlantic. The local market scale created through this transaction will unlock several opportunities to improve unit economics, returns on capital, and accelerate cash flow generation. Management is already ahead of their plans to eliminate duplicative expenses, renegotiate contracts to lower construction costs, and improve production efficiency and sales velocity. Lennar is also

ahead of its peers in investing in technology and capabilities to greatly reduce customer acquisition costs, expand financial services, and lower commission rates.

Early in the cycle, Lennar made smart investments in ancillary businesses, many of which do not contribute to earnings and are not valued by investors. As these businesses are monetized and result in several billion dollars of proceeds, Lennar's low valuation will become apparent. Taking into consideration Lennar's strong integration execution and housing industry fundamentals that support several more years of a positive cycle, we believe buying Lennar's core homebuilding operation at close to 6x pro forma earnings is a bargain.

Dover

Since our last update, Dover has made several significant announcements. Dover decided to 1) spin its energy business, Apergy, thus greatly reducing earnings volatility; 2) switch to "cash" EPS reporting to focus investors on the strong FCF generation of the portfolio; and 3) transition to a new CEO, Richard Tobin, who has a strong background operating industrial assets. Based on Apergy's current when-issued share price, the Dover RemainCo is currently valued at an 8% FCF yield on our 2019 estimates, which represents a ~30% discount to the US large-cap multi-industry peer group. With a high quality set of remaining assets, increased strategic optionality, and a catalyst rich path over the next several months – completion of the Apergy spin, repurchase of ~7% of outstanding shares, and communication from the new CEO – we believe Dover's RemainCo will close the valuation gap to its multi-industry peers.

Structured Credit Update

The Structured Products portfolio returned +6.9% on average exposure in Q1 compared to a return of +0.9% by the HFN Mortgage Index for the same period. We have expressed our belief in the fundamental health of consumers in a low rate environment by building an attractive portfolio of reperforming whole mortgage loans over the last few years. Our bet paid off in Q1 as a combination of continued ability to borrow and an uplift from tax reform in late 2017 created a healthy environment for consumers and demand for our portfolio

securities. We also saw strength in our modest European RMBS book which contains primarily mezzanine securities in peripheral countries. Sovereign credit upgrades in countries such as Greece and Portugal coupled with a rally for senior bonds in Q4 prompted interest further down the capital structure and in the types of bonds we own.

While our portfolio today is more modest in size than it has been, we are continuing to find different ways to look at residential credit and to find other opportunities in the large universe of structured credit securities. Given recent macroeconomic headwinds, Third Point has been defensive with our credit exposure and we have cut our duration profile in half by engaging in new and interesting investment opportunities, such as partnering selectively with consumer lending platforms. In Q1, we structured our fourth securitization with Prosper which has been a productive partnership, creating investments with mid-teens yield profiles and significantly shorter duration compared to our historic non-agency RMBS CUSIP book. We still see value in the mortgage segment of the market and will continue to explore new and innovative ways to migrate from personal loans to other sources of consumer lending such as point of sale and virtual cards. We believe our network will continue to afford us interesting abilities to source investments and take advantage of further disruptions in the space.

Conclusion

On the eve of our twenty-third birthday, we believe our longevity is largely due to our ability to be flexible investors and to apply our framework to different economic and market environments. Of course, we don't always get it right. Market shifts are inherently difficult to anticipate and when they happen, they do not ring a bell but they do blow a dog whistle, as we have said in the past. Our job is to listen carefully and to take decisive action when we suspect change is afoot. We believe that the increase in our short book and our reduced net and gross reflect what we are hearing.

Sincerely,

Third Point LLC

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