

Second Quarter 2023 Investor Letter

July 31, 2023

Dear Investor:

During the Second Quarter, Third Point returned 1.1% in the flagship Offshore Fund.

	Q2 ¹	YTD ¹	ANNUALIZED NET RETURN ²
THIRD POINT OFFSHORE FUND, LTD.	1.1%	-3.0%	12.9%
CS HF EVENT-DRIVEN INDEX	0.8%	2.1%	6.6%
S&P 500 INDEX (TR)	8.7%	16.9%	8.9%
MSCI WORLD INDEX (TR)	7.0%	15.4%	7.3%

¹ Through June 30, 2023.

² Annualized Return from inception (December 1996 for TP Offshore and quoted indices).

The top five winners for the quarter were Pacific Gas and Electric Co., Microsoft Corp., Amazon Inc., Alphabet Inc, and Ferguson PLC. The top five losers for the quarter were Alibaba Group Holding Ltd., Danaher Corp., Catalent Inc., International Flavors & Fragrances Inc., and a private position.

Performance Review and Portfolio Outlook

Major indices continued strong performance during the second quarter with the tech-heavy Nasdaq outperforming the S&P and both significantly outperforming the S&P 500 equal-weighted index and Russell 2000. The S&P 500's returns this year continue to be defined by an unusual lack of breadth – ~65% of second quarter and ~75% of year-to-date returns through Q2 were attributable to just seven companies: Microsoft, Nvidia, Apple, Amazon, Facebook, Tesla and Google. These stocks represent roughly 25% of the market value of the index, so managers who have had less than 25% of their funds in these stocks have found it challenging to keep up with “the market”. Although we had exposure to Microsoft, AMD,

Amazon, and Google, the positions were undersized and profits offset by losses from market/basket hedges, single name shorts, and several poorly performing long equity positions.

Last October, we correctly observed that markets bottom when economic data looks most bleak, and pessimism is high. At that time, inflation still seemed to be accelerating, rates were rising, and the consensus belief was that only a powerful medicine of Fed hikes and a severe recession could break the “fever” of relentless inflation. Instead, we saw the first signs of disinflationary green shoots in easing apartment rental data and concluded that the economy was headed in the right direction. Unfortunately, rather than expressing this constructive view by investing heavily in high-quality tech companies with earnings growth (an obvious choice in hindsight), we primarily committed capital to value situations which have since underperformed.

Looking ahead, we see continued favorable economic conditions driven by declining inflation, which should eventually lead to less hawkish monetary policy. While we recognize that consumers are vulnerable to the depletion of savings accumulated from fiscal stimulus and other pandemic-era emergency measures, we also see potential for the Fed to begin an easing cycle around the time American consumers begin to run low on cash, which should make for a mild recession. We also believe that since consumers and businesses (other than perhaps the commercial real estate industry) would be going into any economic slowdown with healthy balance sheets, the risk of a credit dislocation is minimal in the coming year, also reducing the risk of a severe recession.

Against this economic backdrop, we believe Artificial Intelligence will have far reaching effects on the economy, public equities, and society, and understanding its impact is essential to successful stock selection. As has always been the case with disruptive new technologies, the initial applications of AI can seem somewhat trivial. But while we may marvel at the images generated by Dall-E or be amused by the South Park episode written by ChatGPT, we believe we are living in the early stages of a profound economic upheaval. Though it may sound hyperbolic to compare AI to the advent of fire or the wheel as some “AI maximalists”

have suggested, we believe generative and other forms of AI could compare to the Industrial Revolution but compressed into a period of months and years rather than decades.

One need only look to two watershed events this year to see signs that the impacts of AI are already occurring: 1) the reporting of Nvidia's Q1 astronomical earnings beat and forward guidance; and 2) Microsoft's introduction of its AI-assisted Office Copilot software, which could increase its revenues by as much as \$25 billion or more on software sales alone. While it is impossible to quantify precisely, we are confident that from a macroeconomic standpoint, AI will have enormous impact on labor productivity, business profit margins, and individual well-being, and act as a counter to the inflationary pressures that have emerged over the last few years. We expect enterprise applications to dramatically accelerate by the early part of 2024.

Portfolio Construction

Given this backdrop, and notwithstanding the market run to date, we see healthy upside in the valuations of our portfolio. Certain pundits who bemoan high S&P valuations ignore the "kink in the curve" provided by AI and companies like Tesla and Nvidia, which skew the S&P multiple. We are finding many high-quality companies trading at reasonable valuations, especially when considering their prospective growth or specific transactions they are undergoing to unlock value.

On the other hand, the short selling environment is much more challenging than it has been historically. Fundamental analysis is increasingly taking a back seat to monitoring daily option expiries and Reddit message boards, as evidenced by the numerous short squeezes and manipulations of heavily shorted stocks such as AMC and Gamestop in 2021 and others this year. While we have not abandoned short selling, we continue to reduce our single name short exposure in favor of market hedges and short baskets. We have also increased diversification and reduced position sizes of single name shorts, limiting our vulnerability to short squeezes.

While our gross equity exposure is still modest (below 100% on the long side), we have increased our nets to 70% as of this writing and 77% on a beta adjusted basis. About 45% of that net long exposure is composed of direct and indirect AI beneficiaries trading at reasonable valuations. We have sized up our investments in certain cloud software businesses including Microsoft, a clear AI winner as a result of its rapidly growing Azure cloud business, upside from applying AI features to its core Office products, investment in Open AI, and ability to provide AI services to other companies (for example, Microsoft holds a stake in one of our portfolio companies, LSE, which it is also assisting in harnessing greater value in its data via AI). We hold stakes in a range of semiconductor companies that provide GPUs, memory, or manufacture chips. The other 55% of the book is a diversified portfolio of companies such as PCG, Danaher, Bath & Body Works, FIS, AIG, Jacobs Engineering, and others that are undervalued and have important upcoming catalysts such as spinoffs or operational turnarounds that should drive value in the near to medium term.

In times of extreme credit market dislocations, our corporate and structured credit books are sources of outsized short-term returns. Today, our credit portfolio is delivering steady, low volatility returns as a result of current yields and appreciation of special situations. Corporate credit generated an 8.7% net return on assets in the first half of the year and structured credit is poised for strong results over the next 18 months because of numerous events and catalysts that underly many of the RMBS mezzanine structures which we control. Our combined exposure to credit is ~ 40% which we expect to deliver less correlated and lower risk 15% IRRs over the next 18 months.

Equity Updates

AI-Driven Positions

Third Point has been investing in AI-enabled business models since our 2016 Series B venture investment in Upstart, which ultimately became the firm's most lucrative investment. We have watched AI evolve and believe the technology has matured to the point that it is driving a transformational technology platform shift similar to those seen roughly once per decade: the personal computer in the 1980s, internet in the 1990s, mobile in the 2000s, and cloud in the 2010s. AI is creating interesting investment opportunities across the

information technology “stack”, and we have increased our exposure to companies throughout the software and semiconductor value chains that should benefit from mass adoption of Large Language Models (or “LLMs”), one of the foundational technologies underlying generative AI.

Within application software, LLMs have potential to accelerate revenue growth and reduce operating expenses for many publicly traded software companies. While LLM-enabled products are in their infancy, exciting early use cases are emerging across several major application categories including productivity software, content creation software, customer relationship management software, and enterprise resource planning software. Companies will monetize this by offering higher-priced AI-enabled versions of existing products, resulting in accelerating ARPU and faster revenue growth, as Microsoft has recently demonstrated with its plan to sell its Office Copilot software at a roughly 2x price increase over the existing non-AI version. Software companies may also benefit from lower operating expenses via improved employee productivity; one of the most obvious use cases for LLMs is in software development, where recent feedback suggests that AI-driven code augmentation could accelerate product development timelines by more than 20%.

Within infrastructure software, the most direct consequence of mainstream LLM adoption will be an acceleration in cloud usage, which will drive faster revenue growth for the three hyperscale cloud providers – Microsoft Azure, Amazon Web Services, and Google Cloud Platform. This is primarily because LLMs require cloud-scale data storage and compute resources but also because many of the leading foundational LLMs are accessible exclusively via these cloud platforms. Given those dynamics, AI should quickly become a much larger contributor to cloud demand and we expect total cloud spending to accelerate as mix shifts toward fast-growing AI use cases over the next few years. As the leading vendors in an increasingly oligopolistic cloud platform market, Microsoft, Amazon, and Google are the “picks and shovels” of the AI gold rush and should benefit regardless of which products ultimately “strike gold” at the application software layer of the IT stack.

Within semiconductors, LLMs are leading to a step change in compute intensity within the datacenter that will drive meaningful incremental investment across several product categories. The price of an AI server running AI workloads costs over \$200,000, or roughly 30x the cost of a traditional \$7,500 web server. A significant portion of this increase (roughly 80%) comes from the addition of the GPU, but other components such as memory and even CPU see 4x content uplifts.

Within memory, a new DRAM architecture is emerging to solve key performance bottlenecks in GPU compute. Called High Bandwidth Memory (“HBM”), these multi-stack memory units from memory makers Micron, Samsung, and Hynix sport I/O speeds that are multiples of DDR4 and sell at an 8-10x premium. We see HBM growing to >10% of the industry revenues this year alone driven by broader GPU adoption. In compute, AMD is again reinventing itself with a new product tailored to AI workloads, the Mi300. Mi300 combines the company’s unique CPU, GPU, and interconnect IP to deliver what we believe will be the most competitive accelerated compute offering to Nvidia to date.

While there has been tremendous excitement in the market for these stocks, we think this is just the beginning. The LLMs in development are growing in number and complexity and once trained, increasingly complex GPUs and associated compute architecture is needed to run these models in real time. It is estimated that the cost of training Chat GPT-4, released this year, was 3x that of training Chat GPT-3 just three years ago. We also see the number of models growing significantly, and this trend of increasing complexity and widening adoption should continue to drive significant growth for GPUs and associated products.

We are mindful of the “hype cycle” that surrounds AI as well as the attendant regulatory risks. And while the AI investment opportunity remains in its infancy and will take time to mature, we see clear evidence that it is already leading to the creation and destruction of large profit pools, and many stocks will be beneficiaries.

Equity Position Update: Danaher (DHR)

Danaher is our longest held investment and remains a top five position. Danaher has underperformed the S&P 500 this year due to a slowdown in the bioprocessing industry and more cautious spending by biopharma customers. Bioprocessing is a key end-market that drives more than a quarter of Danaher's profits. Bioprocessing products are the main inputs that biopharma companies use to manufacture biologic drugs, which are the fastest growing category of drugs, growing low-to-mid-teens and representing a sizeable portion of the clinical pipeline.

The bioprocessing industry experienced significant growth in 2021 and 2022, driven by Covid vaccines and a strong biotech funding environment. Several participants, including Danaher, lowered their 2023 growth outlook in large part due to customer inventory de-stocking and biotech funding weakness. We anticipate that this slowdown is temporary, and the bioprocessing industry will return to normalized growth of high-single digit to mid-teens in 2024 and beyond.

Danaher has created significant value over decades through its unique operating system and superior M&A, and its low leverage balance sheet should allow it to take advantage of depressed valuations in the life science tools sector to continue to add to its portfolio. More importantly, Danaher stands to benefit from the surge in new projects and drug discovery spending occurring in the post-Covid world. Danaher's Biotechnology and Life Sciences segments are poised to accelerate from data analytics and computational biology, which will grow meaningfully as AI and eventually quantum computing technology advance. We would not be surprised to see Danaher's growth rate move from high single digits to the low teens over time, implying a long runway for Danaher's business and stock price to increase sustainably while they enable the discovery and manufacturing of key life-saving drugs.

Danaher is on track to spin-off its Environmental & Applied Solutions division in Q4 of this year, which marks the last step in the company's transformation into a pure-play life sciences tools and diagnostics company. The spin-off, to be named Veralto, has a strong ESG profile with well positioned assets in the high growth areas of water quality and product

identification end markets. As a stand-alone public company, Veralto will benefit from tailored capital allocation and meaningful inorganic investments.

Equity Position Update: Shell Plc

We initiated a position in Shell in the summer of 2021 and highlighted the company's significant discount to intrinsic value as well as to US-listed peers after decades of poor performance. While shares have performed well since we initiated the investment, the company still trades at staggering discount to intrinsic value and represents a compelling investment at current levels. We initially argued (and still believe) that the fastest path to improved performance and better valuation would be a separation of Shell's business units to better attract shareholders and improve accountability, the latter of which was essential when the company was in the hands of executives who had demonstrated virtually no focus on shareholder value creation.

The most important change at Shell over the past two years has been the upgrade in the management team, with the appointments of Wael Sawan as CEO and Sinead Gorman as CFO. They have demonstrated an unwavering commitment to shareholder value, capital discipline, and improved returns. At their recent analyst day, Mr. Sawan stated "underpinning all that we do will be a ruthless focus on performance, discipline, and simplification." It was the third time they used the term "ruthless" in their presentation, sending a strong message to shareholders.

Mr. Sawan and Ms. Gorman are backing up their words with actions. In their brief tenure, they have already cancelled several projects with poor return profiles, eliminated meaningless targets that in many cases were divorced from economic value creation, and made it abundantly clear that Shell's highest priority is generating a return for its investors by increasing shareholder distributions and paring back capital spending.

At just 7x consensus earnings, we see significant further upside in the stock. Enhanced focus and discipline will allow Shell to generate mid-teens shareholder returns via cash flow per share growth and dividends through the end of the decade, with additional upside from

potential portfolio actions. While Shell has so far insisted on maintaining its conglomerate structure, we see positive signs that it has arrived at a coherent and compelling strategy for value creation and believe the company is in the right hands to materially improve its standing relative to peers.

Corporate Credit

Third Point corporate credit returned 8.7% net on invested assets for the first half of the year, outperforming the JPM Global High Yield Index return of 5.3%. High yield spreads have traded in a tight range this year (435-560bps), but dispersion has been relatively broad, and we have identified improving situations despite the uncertain macro backdrop. Additionally, events such as the short lived “banking crisis” created attractive trading opportunities that the credit team capitalized on.

The corporate credit portfolio consists largely of senior bonds or bank debt, and we have favored industries that should outperform if the most anticipated recession in history finally materializes. We are finding attractive opportunities in healthcare, telecommunications and select sectors/credits within commercial real estate. We have been very aggressive harvesting names that hit our price targets recycling that capital into new opportunities in order to achieve equity-like returns. We continue to be patient and are not chasing credits facing secular challenges or business models that may not be viable in a period of economic weakness. Our strategy has successfully generated attractive returns in this “grind it out” market.

While timing is difficult to predict, we believe high yield spreads should widen as defaults surface, driven by a weaker economy or refinancing challenges from higher interest rates. The yield to worst of 8.7% for the JPM US High Yield Index is in the 80th percentile using data over the last 20 years, but credit *spreads* remain relatively narrow. This is particularly concerning for CCC issuers (14.25% index yield vs. ~8% average cost of debt) who must refinance debt over the coming years and find themselves facing significantly higher interest burdens. Narrow high yield spreads imply next 12-month default rates of just 2-3%, which we believe will prove optimistic as cheap debt matures.

Structured Credit

The residential mortgage portfolio generated 0.1% net in Q2 and has returned 3.2% net year-to-date, driven by continued resilience in house prices and solid borrowers, who have locked in low rates and have 40-50% equity held in their homes. The structured credit portfolio as a whole generated 0.2% net in Q2, bringing year-to-date returns to 4.1% net. Over the past few quarters, we have added senior bonds in residential mortgages at 9-12% yields with total return upside into the mid-teens. As rates have increased over the past 18 months, many investors have shifted their portfolios towards fixed income. Insurance companies and money managers are seeing material inflows as they look to capture the outsized yields in investment grade structured credit. On a national scale, US housing stock totals \$43 trillion and there is currently \$13 trillion of mortgage debt, which means there is \$30 trillion of equity in the US housing market in the hands of homeowners. This sizeable amount of capital provides stability to the US homeowner and consumer and is reflected in the continued strength we see in our monthly remits. In consumer ABS, we have added BBB rated bonds at 10% yield with a 2-year duration. As these bonds amortize, we believe they could be strong rating upgrade candidates with returns in the mid-teens as buyers look for single A rated profiles.

Across the credit markets, corporate credit is approximately 30% of the outstanding market, private credit is now 15% and structured credit is 55%. As companies look for financing, they are considering all three markets and selecting the best option. While structured credit is the largest outstanding volume, the asset class has fewer participants, which creates a unique opportunity for us to find compelling relative value. We noted last fall that financial technology firms would need liquidity to sustain their lending programs. With the regional banking crisis in March, banks and credit unions are now also selling loans to right size their asset and liabilities. While most headlines suggest that banks will sell commercial real estate loans, we believe that most selling will be focused on consumer loans given the lower duration and less mark-to-market impact. Commercial real estate loans will be a much more painful sale given the duration and credit issues so the sale will likely be delayed until early next year. We are excited about the opportunity in consumer loans where we can source

material size at 12-15% yield on an unlevered basis and leverage our experience in securitizations to create attractive structural term leverage.

Sincerely,

A handwritten signature in dark ink, appearing to read "Daniel S. Loeb". The script is cursive and fluid, with the first name "Daniel" being more prominent than the last name "Loeb".

Daniel S. Loeb

CEO & CIO

The information contained herein is being provided to the investors in Third Point Investors Limited (the “Company”), a feeder fund listed on the London Stock Exchange that invests substantially all of its assets in Third Point Offshore Fund, Ltd (“Third Point Offshore”). Third Point Offshore is managed by Third Point LLC (“Third Point” or “Investment Manager”), an SEC-registered investment adviser headquartered in New York. Third Point Offshore is a feeder fund to the Third Point Offshore Master Fund L.P. in a master-feeder structure. Third Point LLC, an SEC registered investment adviser, is the Investment Manager to the Funds.

Unless otherwise specified, all information contained herein relates to the Third Point Offshore Master Fund L.P. inclusive of legacy private investments. P&L and AUM information are presented at the feeder fund level where applicable. Sector and geographic categories are determined by Third Point in its sole discretion.

Performance results 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 or upon withdrawal. From the inception of Third Point Offshore through December 31, 2019, the fund’s historical performance has been calculated using the actual management fees and performance allocations paid by the fund. The actual management fees and performance allocations paid by the fund reflect a blended rate of management fees and performance allocations based on the weighted average of amounts invested in different share classes subject to different management fee and/or performance allocation terms. Such management fee rates have ranged over time from 1% to 2% per annum. The amount of performance allocations applicable to any one investor in the fund will vary materially depending on numerous factors, including without limitation: the specific terms, the date of initial investment, the duration of investment, the date of withdrawal, and market conditions. As such, the net performance shown for Third Point Offshore from inception through December 31, 2019 is not an estimate of any specific investor’s actual performance. For the period beginning January 1, 2020, the fund’s historical performance shows indicative performance for a new issues eligible investor in the highest management fee (2% per annum) and performance allocation (20%) class of the fund, who has participated in all side pocket private investments (as applicable) from March 1, 2021 onward. The inception date for Third Point Offshore Fund Ltd is December 1, 1996. All performance results are estimates and past performance is not necessarily indicative of future results.

The net P&L figures are included because of the SEC’s new marketing rule and guidance. Third Point does not believe that this metric accurately reflects net P&L for the referenced sub-portfolio group of investments as explained more fully below. Specifically, net P&L returns reflect the allocation of the highest management fee (2% per annum), in addition to leverage factor multiple, if applicable, and incentive allocation rate (20%), and an assumed operating expense ratio (0.3%), to the aggregate underlying positions in the referenced sub-portfolio group’s gross P&L. The management fees and operating expenses are allocated for the period proportionately based on the average gross exposures of the aggregate underlying positions of the referenced sub-portfolio group. The implied incentive allocation is based on the deduction of the management fee and expense ratio from Third Point Offshore fund level gross P&L attribution for the period. The incentive allocation is accrued for each period to only those positions within the referenced sub-portfolio group with i) positive P&L and ii) if during the current MTD period there is an incentive allocation. In MTD periods where there is a reversal of previously accrued incentive allocation, the impact of the reversal will be based on the previous month’s YTD accrued incentive allocation. The assumed operating expense ratio noted herein is applied uniformly across all underlying positions in the referenced sub-portfolio group given the inherent difficulty in determining and allocating the expenses on a sub-portfolio group basis. If expenses were to be allocated on a sub-portfolio group basis, the net P&L would likely be different for each referenced investment or sub-portfolio group, as applicable.

While the performances of the fund has been compared here with the performance of well-known and widely recognized indices, the indices have not been selected to represent an appropriate benchmark for the fund whose holdings, performance and volatility may differ significantly from the securities that comprise the indices. Past performance is not necessarily indicative of future results. All information provided herein is for informational purposes only and should not be deemed as a recommendation to buy or sell securities. All investments involve risk including the loss of principal. This transmission is confidential and may not be redistributed without the express written

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