THIRD POINT

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Second Quarter 2009 Investor Letter

July 31, 2009

Dear Investor:

Third Point Partners, Partners Qualified, Offshore, and Ultra Funds returned 8.0%, 7.9%, 10.0% and 12.2% for the second quarter of 2009, and have returned 5.6%, 5.5%, 7.1% and 8.5% for the year to date. Assets under management at July 1, 2009 were $1.8 billion.

Quarterly Results

As indicated in the first quarter 2009 letter, our view that the robust governmental response to economic problems here and abroad had averted a global financial meltdown led us to become more constructive about the investment climate. With such a doomsday scenario off the table, we put capital to work during the second quarter in a number of significantly undervalued turn-around, distressed debt, and other compelling special situations.

On April 1st, our net exposure in our long/short strategy was -3.4%. By June 30th, we were more fully invested: net exposure in our long/short strategy was 37%, allocation to credit had grown to over 40%, and risk arbitrage made up over 20% of the portfolio.

Fortis

During the fourth quarter of 2008, the Belgian and Dutch bank subsidiaries of Fortis, a Dutch financial services company, were nationalized in a convoluted process. Ultimately, a deal was brokered whereby the Belgian bank subsidiary of Fortis was sold to BNP Paribas, the "toxic assets" were isolated in a "bad bank", and Fortis shareholders were allowed to retain significant value in the remaining business, which is primarily an insurer. However, multiple lawsuits, shareholder votes and political jockeying muddied the waters and made the proposed outcome uncertain. Additionally, "deal fatigue" from the protracted process, disgust over the prior management's bungling, and an almost complete drop of research coverage made Fortis securities unpalatable to the investing public.

Adding to the chaos from a technical trading standpoint, the Lehman bankruptcy caused dislocation in the market for hybrid securities as balance sheets became constrained and traditional convertible arbitrage players' ability to hedge exposure was impacted by short-selling restrictions, forcing the sale of certain Fortis convertible preferred shares.

Our analysis revealed that not only was Fortis asset-rich, but also that significant near-term catalysts were likely to unlock this value. We initiated a position in the common equity, certain convertible securities, and other hybrids ahead of the April 29th shareholder meeting to approve the deal between the Belgian government and BNP. The mandatory convertible bonds were trading at parity (8 cents) when we began accumulating the security, which meant that the market assigned almost no probability of the company paying the installment on the 8.75% coupon that was coming due. We thought that there were many good reasons the coupon would be paid, including contractual requirements, and when the BNP transaction was approved we were rewarded for our insight. The coupons continue to be paid, and we have reduced the Funds' cost basis by more than 50% as a result. We believe Fortis common and the mandatory convertibles continue to be significantly undervalued, and so these remain core positions in our fund in advance of the next catalyst – the release of half-yearly financial statements and an updated operating plan from the company. We have earned about 160% on our invested capital in Fortis over the past 4 months.

Chrysler Financial Bank Loans

During the quarter we carefully studied the impact that increasing government regulation and intervention would have on the value of investments in a range of industries. Our investment in Chrysler Financial[1] ("Finco") 1st and 2nd lien debt, among our biggest winners for the quarter, is a good example of this. Like Fortis, this was a highly complex situation, investors were fatigued, and there was a great deal of negative sentiment about the company. We believed that the Finco debt was fully covered by the company's assets and was legally ring-fenced from the insolvent Car Company ("Carco"). Markets didn't share our view, and as a result, in April we were able to purchase 1st liens in the 50's, and 2nd liens in the 30's.

The May 1st bankruptcy deadline set by the government proved to be the catalyst that we anticipated. Once Carco filed for bankruptcy, there was additional clarity about both the valuation of the Finco assets and the legal status of the claims. The 1st lien bank debt traded to the 70's, and the second liens traded to the 50's (on their way to trading to the low-90's and mid-80's, respectively, more recently). We took profits on our 2nd lien investment shortly after the bankruptcy as their potential recovery would be largely determined by the treatment of certain assets whose fate remained unknown.

Subsequently it was announced that GMAC would handle the financing of automobiles for GM and Chrysler. Following the announcement, Finco went into run-off mode, providing a new catalyst for the investment, and we repurchased the 2nd liens. We believe Finco has generated a significant cash balance since entering run-off and will use this cash to repay a large portion of the 1st lien (thereby also increasing the value of the

[1] Chrysler was set up with two distinct operating subsidiaries: Chrysler Carco which manufactures and sells automobiles and Chrysler Finco which provides financing to dealers and customers of the Carco. The public brouhaha over the unsecured Chrysler creditors were those involved in Carco.

2nd lien) or possibly seek to repurchase 2nd lien paper at a discount during the next six months. Either of these events should result in meaningful appreciation for both loans.

Other Auto Industry Investments
Opportunities abound to make outsized returns in the auto industry. At present, about 12% of the portfolio is in auto-related exposure, making up 25% of the overall credit book. Companies we are invested in include Ford Motor Company, Ford Motor Credit, Dana Holding, Delphi, and Lear.

We believe that these opportunities are compelling due to improving industry fundamentals, though each investment is generated through bottoms-up analysis. Since October 2008, monthly US SAAR (seasonal-adjusted annual rate of sales) has stabilized between 9.5-10.0 million units. Retail SAAR (other than fleet sales) has been particularly stable around 8 million units during this time frame. As we approach the one year mark on depressed SAAR levels, we believe it is unlikely there will be another leg down and preliminary estimates for July SAAR reflect optimism that we may finally exceed 10 million units. Used car pricing has appreciated nearly 20% since its trough in December 2008, and there is a reported shortage of used cars at auction houses. The lack of attractive used car options and the early success of the "cash for clunkers" program should lead to increased SAAR and production levels despite prevailing macro economic head winds. Investing in this industry is not for the faint-of-heart, and one must be selective (as there will be clear winners and losers), but we think the Funds will benefit from our foray into this market.

Bank of America
Following the government intervention theme, we also built a position in Bank of America (BAC). We initiated this position in BAC Preferred, which we bought at an average price of 57 cents on the dollar and exchanged for common stock worth $10 in mid-May (the stock has appreciated more than 40% since then). We have continued to hold BAC equity and believe it is significantly undervalued, as our research indicates a normalized earnings power of ~$3/sh, which would imply that the stock is trading for about 4.3x normalized earnings. With tangible book value of $11.66 (as of June 30), if BAC simply traded at the 1.5x tangible book value afforded most of its peers, it would imply nearly 50% upside from today's levels.

Deutsche Boerse
Elsewhere, in early April we initiated a position in a once-popular hedge fund name that had recently found disfavor. We welcome Deutsche Boerse back into our portfolio, as we have found its fundamentals compelling again. At the time of our investment, we noted that Deutsche Boerse enjoyed high market share, ~50% EBIT margins, and had modest financial leverage, yet the stock was trading on just 10x free cash flow. We saw other compelling attributes: a) the stable earning 'Clearstream' settlement/custody division, if fairly valued, implied that the more risky volume sensitive businesses were being provided exceptionally cheap valuations, and b) the announcement of two major

shareholders exiting their long positions marked the end of a significant technical overhang. We expect the group to benefit from a reopening of capital markets via new debt issuances and a gradual increase in market volumes. Additionally, Deutsche Boerse is likely to be at the forefront of an organized European credit derivatives platform, which should provide a significant earnings opportunity.

Distressed Mortgage Investments

We started making investments in mortgage securities again during the quarter shortly after hiring Keri Anisgarten as our mortgage specialist. This was not our first foray into the sector as we made significant short investments in sub-prime mortgage bonds in 2007 using both the ABX index and credit default swaps on single name securities. In aggregate these investments were among our largest contributors to profits that year.

The first lien residential mortgage market is an approximately $9.4 trillion market, of which $4.7 trillion represent agency securities, $2.5 trillion are held on bank balance sheets, and $2.2 trillion are non-agency securities. In addition, the commercial mortgage industry represents a universe of approximately $3.5 trillion of which $1.55 trillion are held on bank balance sheets, $950 billion are owned by the GSEs, insurance companies and specialty finance companies, and $900 billion are commercial real estate securities. At present we have made only limited investments in CMBS due to the expected further deterioration in the loan pools.

Much of the $2.2 trillion non-agency market is currently distressed and has been orphaned by the market. The original buyers of residential mortgage-backed securities were banks, insurance companies and CDOs, all of which bought these securities with leverage. As leverage has evaporated, the buyer base has shifted to unlevered buyers like hedge funds, private equity funds and some traditional money managers. Many insurance companies and banks have been forced to sell certain assets due to ratings downgrades. As distressed investors, markets with this level of dislocation provide an irresistible opportunity.

We are purchasing mortgage backed securities which, under our base case economic assumptions, yield a 17-20% return, and under our severely stressed economic assumptions return 10%.[2] Mark-to-market and duration extension are the biggest risks to mortgage-backed securities at these prices. While both are significant, we think the bonds we own are ultimately covered by the collateral value which will eventually stabilize and increase prices.

Since we started putting money to work in April and as of the date of this letter, we have invested approximately $160 million in the securitized mortgage-backed space and made over $20 million in profits, generating an impressive IRR. Although four months is certainly too brief of a period to “declare victory” in the mortgage markets, I am pleased with our timing, security selection, and ability to obtain choice offerings from the Street.

[2] Our severe economic stress case assumes 100% defaults and another 20% decline in home prices.

Although initially we had targeted mortgage investments to comprise 5-10% of invested capital, we now believe we may eventually allocate 10-15% to this distressed investing strategy, depending on the relative opportunity sets in the event-driven space.

Risk Arbitrage

Notwithstanding the disappointment of the Citigroup Preferred/Equity exchange due to the usurious rates charged to borrow the stock, this has been a terrific time to be involved in risk arbitrage. Pfizer/Wyeth has been one of our biggest positions for the past few months, a trade we put on at an over 20% spread. A few years ago, a spread like this was unheard of for a merger of two high quality complimentary businesses with few potential regulatory snags. This deal is a perfect example of how diminished tolerance for risk, lack of available leverage, and fewer players in the game have made returns more attractive.

Investment Outlook

As I said in our last letter and in numerous meetings with investors, I am encouraged by the current investment climate, particularly by the opportunities in distressed debt. While we have done a decent job capitalizing on this market over the past several months, most of our gains thus far have been in performing bonds which were over-sold and then tightened to more rational levels. However, it has been my experience that the most compelling part of the distressed cycle is the later stage, involving restructuring of defaulted securities**.** Long-term Third Point investors will recall that such opportunities in the last distressed cycle of 2002-2005 yielded winners like Dade Behring, Warnaco, Leap Wireless, International Coal and others. Currently we stand at the proverbial precipice of five years of escalating maturities, amounting to over $700 billion. In addition, default rates currently at 10% are projected to rise to 14%, significantly increasing the available universe for investment. The two charts below illustrate the increase of anticipated defaults and the outlook for maturities. To say the least, the concept of kids and candy stores comes to mind. We are excited about putting our capital to work by providing much needed liquidity to companies in need of restructuring their balance sheets.

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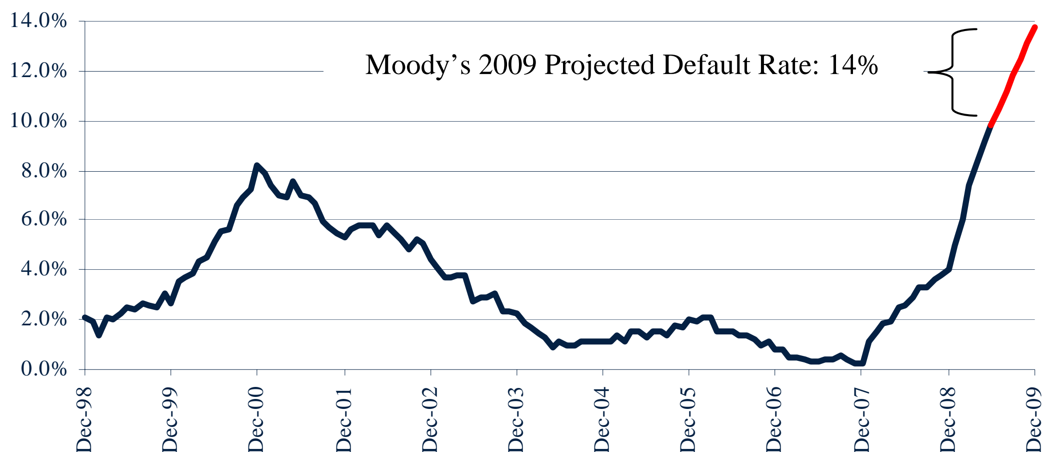
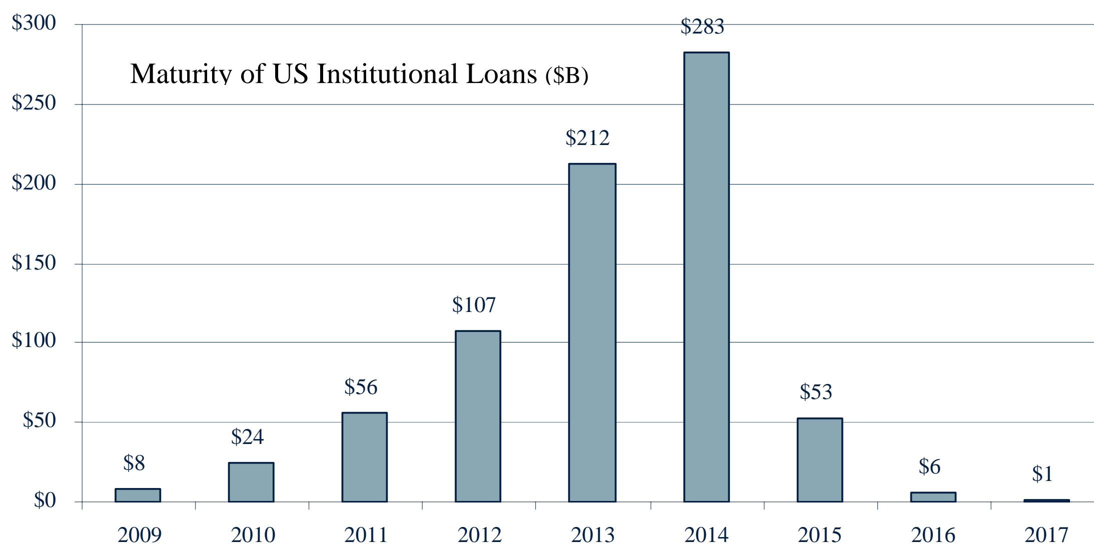


Source: Moody's



Source: JP Morgan

Changes to Investor Terms

The Boards of Directors of our two offshore funds, Third Point Offshore Fund, Ltd. and Third Point Ultra Ltd., as well as the General Partner of our two onshore funds, Third Point Partners L.P. and Third Point Partners Qualified L.P., have determined to alter certain terms pertaining to the ability of an investor to redeem his investment.

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Modification of Lock-up Period
New investments will no longer be subject to a one-year hard lock-up period. Instead, investors wishing to redeem prior to the last day of the fourth full fiscal quarter following the initial investment (the "First Anniversary Quarter") will be permitted to do so subject to a 5% early redemption penalty to the relevant fund. Prior to the First Anniversary Quarter, redemptions will be available as of the last day of each fiscal quarter, upon 60-days written notice.

Elimination of 3% Off-Anniversary Redemption Fee
Prior to this change, investors who wished to redeem their investment (following the lock-up period) could do so without a fee only on the First Anniversary Quarter and each anniversary thereof (i.e., each "Anniversary Quarter"). Redemptions at quarter-ends that were not Anniversary Quarters were subject to a 3% fee payable to the fund. We are now eliminating this fee.

The rest of the terms of investment in these funds will remain the same.

We believe these changes are responsive to needs of both our existing and potential investors. In considering these changes our first priority was to ensure that we maintain a strong business franchise, and maintain a steady base of capital that matches assets under management to the liquidity of our portfolio. We feel these terms strike the proper balance.

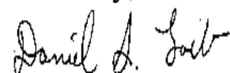
We have begun to see increasing investor interest in our funds as the event-driven landscape becomes increasingly compelling, particularly in credit, given our successful history during the last distressed cycle. We are committed to maintaining strong relationships with our current investors and look forward to strengthening our assets with some of the prospective investors to whom we are currently speaking.

New Analyst Hire

We have recently welcomed a new analyst to our distressed debt team, Scott Leslie. Prior to joining Third Point, he was an Associate in the buyout division at The Carlyle Group. Scott started his career as an Analyst in the Financial Sponsors Group at Credit Suisse, where he focused on leveraged finance transactions. He graduated Summa Cum Laude from Duke University where he received a B.S. in Economics.

Please feel free to contact Investor Relations or me directly by telephone or at dloeb@thirdpoint.com with questions or thoughts.

Sincerely,



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[1] The data in the table is presented by funds managed by Third Point LLC and excludes managed accounts. Individual fund performance, portfolio exposure and other data included herein may vary between the various funds and managed accounts managed by Third Point LLC. 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 or incentive fees, 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 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 fee arrangements, entry times into the Fund, and participation (or lack thereof) in Special Investments. All performance results are estimates and should not be regarded as final until audited financial statements are issued.

[2] Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. This document is confidential and may not be distributed without the express written consent of Third Point LLC and does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum.

[3] The performance and volatility of the S&P 500 may be materially different from the individual performance attained by a specific investor in the funds and managed accounts managed by Third Point LLC. In addition, the funds' and managed accounts' holdings may differ significantly from the securities that comprise the S&P 500. The S&P 500 has not been selected to represent an appropriate benchmark to compare an investor's performance, but rather is disclosed to allow for comparison of the investor's performance to that of a well-known and widely recognized index. You cannot invest directly in an index (although you can invest in an index fund that is designed to closely track such index).