PERSHING SQUARE
PERSHING SQUARE CAPITAL MANAGEMENT, L.P.

888 SEVENTH AVENUE, 42ND FLOOR
NEW YORK, NY 10019
P: 212-813-3700 F: 212-286-1133

January 26, 2016

Dear Shareholder:

	4th Quarter 2015	Full Year 2015 January 1 - December 31	Since Inception
Pershing Square Holdings, Ltd.			12/31/12 - 12/31/15
Gross Return	-8.7%	-19.3%	37.3%
Net of All Fees	-9.1%	-20.5%	22.2%
Indexes (including dividend reinvestment)			12/31/12 - 12/31/15
S&P 500 Index	7.0%	1.4%	52.5%
Russell 1000 Index	6.5%	0.9%	52.1%
Dow Jones Industrial Average	7.7%	0.2%	42.9%

2015 is a year we will not forget. There was no financial crisis except perhaps in the energy, commodity, and currency markets.[1] There were no major new wars except for the rise of ISIS and growing global terrorism. The global economy has shown signs of weakness, most notably in China, but U.S. core growth appears sound. The substantial majority of our portfolio companies made continued business progress despite currency headwinds and a weakening global economic environment. Yet, the Pershing Square funds suffered their greatest peak-to-trough decline and worst annual performance ever. What happened?

Mistakes and Lessons Learned in 2015

The first place to look for an explanation is mistakes we made in 2015, and we did make some important mistakes. Principally, we missed the opportunity to trim or sell outright certain positions that approached our estimate of intrinsic value. Our biggest valuation error was assigning too much value to the so-called "platform value" in certain of our holdings. We believe that "platform value" is real, but, as we have been painfully reminded, it is a much more ephemeral form of value than pharmaceutical products, operating businesses, real estate, or other assets as it depends on access to low-cost capital, uniquely talented members of management, and the pricing environment for transactions.

When we purchased Valeant at an average price of $196, we bought the company at a modest discount to intrinsic value as represented by the company's existing portfolio of products and businesses, but at a very substantial discount to fair value in light of its acquisition track record,

[1] We recognize that this is a bit like a property casualty company saying, "Except for Hurricane Sandy this quarter, losses in our portfolio were minimal."

the large number of potential targets, and its competitive advantages which include its low-cost operating model and favorable tax structure. When the stock price rose this summer to the mid-$200s per share, we did not sell as we believed it was probable the company would likely complete additional transactions that would meaningfully increase intrinsic value. In retrospect, this was a very costly mistake.

Our failure to sell stock wasn't entirely an unforced error as we found ourselves largely restricted from trading during this period. During the summer, we were made aware of a large potential transaction that Valeant was working on, and as a result, we were restricted from trading at a time when it would have been prudent to take some money off the table. In retrospect, in light of Valeant's leverage and the regulatory and political sensitivity of its underlying business, we should have avoided becoming restricted to preserve trading flexibility, or alternatively, we should have made a smaller initial investment in the company.

We made a similar error in not trimming our Canadian Pacific position when it reached ~C$240 per share. While we still believed CP was trading at a discount to intrinsic value at that price and there was the potential for CP to complete an industry-transforming, value-creating merger, in light of the size of the position as a percentage of the portfolio, and concerns we had about the Chinese economy, it would have been prudent to sell a portion of our investment.

Our most glaring, albeit small, unforced error was buying additional stock in Platform Specialty Products at $25 per share to assist the company in financing an acquisition. We paid too much as we assumed the new transaction would create substantial value, and because we assigned too much platform value to the company. Our assessment was incorrect as execution difficulties, operating issues, currency effects, and financing issues have destroyed rather than created value.

While not quite a lesson learned, as this has been a principle we have always believed, 2015 was also an important reminder that stocks can trade at any price in the short term. This is an important reminder as to why we generally do not use margin leverage in our investment strategy. We expect that there have been many margin loan liquidations in recent weeks which have contributed to dramatic stock price declines.

We do not believe that our investment performance in 2015 was primarily due to unforced errors, but rather due mostly to the market's reappraisal of our holdings without a corresponding material diminution in their intrinsic value. While stocks can trade at any price in the short term, it is rare for companies to trade at material discounts to intrinsic value for extended periods. Fortunately, the lessons we have learned in 2015 should be easy to avoid in the future.

What Other Factors Contributed to Our Negative Performance in 2015?

The inception of the portfolio's decline began with Valeant in August. We have discussed at length the events at Valeant which catalyzed the stock's initial decline: political attention on drug pricing and the industry, regulatory scrutiny, attacks by short sellers, and the termination of a distribution arrangement representing ~7% of Valeant's sales. But, we would never have expected that the cumulative effect of these events would have caused a nearly 70% decline in the stock, nor do we believe that they will permanently impair Valeant's intrinsic value.

Contemporaneous with the decline of Valeant, the rest of our portfolio went into free fall which has continued up until the present. While our portfolio is highly concentrated, we are highly diversified in the industries in which we invest: sweet snacks and chewing gum, industrial gases, real estate, specialty pharmaceuticals, specialty chemicals, frozen foods, animal health, housing finance, railroading, and quick service restaurants. One would not expect a substantially greater than market value decline in our portfolio due to recent company-specific and macro events as has occurred since August as shown in the table below:

Peak-to-January 22, 2016 Price Decline vs. S&P 500

Company	High Since Aug-01-15	Recent Low	Price on Jan-22-16	Date of High	Date of Recent Low	Peak-to-Trough Decline	Peak-to-Jan-22-16 Decline	Peak-to-Jan-22-16 Decline vs. S&P 500
VRX	$ 262.52	$ 70.32	$ 88.60	05-Aug-15	17-Nov-15	-73.21%	-66.25%	-57.06%
PAH	$ 23.51	$ 7.31	$ 7.79	10-Aug-15	19-Jan-16	-68.91%	-66.87%	-57.49%
NHL	$ 22.25	$ 9.00	$ 9.07	12-Aug-15	21-Jan-16	-59.55%	-59.24%	-50.65%
FNMA	$ 2.65	$ 1.10	$ 1.44	14-Oct-15	19-Jan-16	-58.49%	-45.66%	-41.28%
FMCC	$ 2.60	$ 1.09	$ 1.40	14-Oct-15	20-Jan-16	-58.08%	-46.15%	-41.77%
CP	$ 160.94	$ 104.17	$ 116.80	10-Aug-15	20-Jan-16	-35.27%	-27.43%	-18.05%
HHC	$ 138.49	$ 90.78	$ 96.56	17-Aug-15	13-Jan-16	-34.45%	-30.28%	-20.98%
QSR	$ 43.91	$ 31.67	$ 34.75	05-Aug-15	11-Jan-16	-27.88%	-20.86%	-11.67%
APD	$ 148.35	$ 117.17	$ 118.97	10-Aug-15	21-Jan-16	-21.02%	-19.80%	-10.43%
ZTS	$ 48.85	$ 39.65	$ 43.40	04-Aug-15	29-Sep-15	-18.83%	-11.16%	-2.25%
MDLZ	$ 46.94	$ 40.31	$ 41.60	22-Oct-15	15-Jan-16	-14.12%	-11.38%	-4.28%

You will note that the best performers in the long portfolio since August were Mondelez, Zoetis, and Air Products. These three companies are the only ones in the current portfolio which are in the S&P 500. Despite their large market caps and business quality, which would ordinarily qualify them for inclusion in the S&P 500 index, Canadian Pacific, Valeant, and Restaurant Brands are Canadian-domiciled and therefore not eligible. Their shares have also likely suffered because they are components of Canadian market indexes that have experienced large capital outflows and substantial declines due to Canada's large energy and commodity exposures.

The companies in our portfolio that have suffered the largest peak-to-trough declines are Valeant, Platform, Nomad, and Fannie and Freddie. The inherent relative risk of their underlying businesses and their more leveraged capital structures partially explain their greater declines in market value as markets moved to a "risk off" mentality. But their massive declines in value, in our view substantially more than can be accounted for due to fundamental issues in their respective businesses, cannot, we believe, be attributed to these factors. Importantly, none of these companies is in any of the important market indexes. Their shareholder bases are, therefore, largely comprised of hedge funds and other active managers, which we believe has contributed to their underperformance.

The Pershing Square Correlation

Perhaps the largest correlation in our portfolio is one that we have not previously considered; that is, the fact that we own large stakes in each of these companies. We have had the benefit of a "following" of investors who track and own many of our holdings. This has given us significantly greater clout than is reflected by our percentage ownership of these companies, and we believe that it is partially what has caused the "pop" in market price when we announce a new active investment. As a result, these active managers' performance is often closely tied with ours. When Valeant's stock price collapsed, our performance, and that of Pershing Square followers, were dramatically affected. Nearly all of these investment managers are subject to daily, monthly, and quarterly redemptions, and therefore, many were likely forced to liquidate substantial portions of their holdings which overlap with our own.

While we review the ownership structure of a company before we invest to look for large holders who might be opposed to the type of corporate changes we intend to advocate, whether a company is in the S&P 500 or other major stock market indexes, or whether the owners are hedge funds or passive investors has not played a meaningful role in our analysis. We select investments based on business quality, discount to intrinsic value, and catalysts to unlock value, but not principally based on who else owns or will own the stock. The vulnerability of a company to an overall market decline, a short seller attack, or negative headlines is highly correlated with the nature of the investors who are the principal holders.

Companies like Mondelez and Zoetis whose owners are principally index funds, ETFs, and other passive investors have much more stable and more "permanent" ownership bases, and appear, therefore, to suffer from much less volatility. Even Air Products, which is in the S&P 500, has suffered from the fact that it is the fifth most hedge-fund-owned stock in the index, and hedge fund liquidations may, therefore, explain its substantial underperformance compared with its direct competitor Praxair since year-end. As of this writing, Air Products has declined by ~9% since year-end, while Praxair, which has the 8th lowest hedge fund ownership of companies in the S&P 500, has only declined 4%. We believe that these exaggerated stock price movements represent a short-term opportunity for long-term investors to accumulate additional shares at attractive prices.

While it is impossible to know for sure, we believe that our continued negative outperformance in the first few weeks of the year relates primarily to forced selling of our holdings by investors whose stakes overlap with our own.

Index Funds

Index funds and other passive managers have gained increasing market share in recent years. Investing capital in funds and ETFs that track major market indexes has recently been what one might call a "one way bet", and there is good reason for this. Index funds and ETFs have very low fees and have outperformed the average active manager in recent years. Last year, index funds were allocated nearly 20% of every dollar invested in the market. That is up from 10% fifteen years ago. Scroll through the ownership registry of corporate America and the top three holders are typically Vanguard, Blackrock, and State Street. As the biggest managers of index funds, they often cumulatively own 12%, and as much as 20%, of nearly every public company.

The success of index funds and their use as benchmarks by investors in actively managed funds lead to even more capital being "closet indexed." This is true because the risk of an active manager losing clients is typically directly correlated with its portfolio's variance from the benchmark's performance. Clients rarely fire a manager for modest performance below the benchmark for any one year, but client engagements and mutual fund flows are often lost if the variance is dramatic in any one year. This encourages managers to invest their portfolios in order to limit their variance to the S&P, with only slight over- and under-weightings to sectors or stocks they believe will outperform. By hugging the index, their performance closely tracks the index, with underperformance attributable to higher fees and easier to explain away as "We are taking less risk than the index in the companies we choose to own."

As more and more capital flows to index funds – and certain index funds such as those tracking the S&P 500 receive disproportionate amounts of investor capital – the valuation of the indexed constituent companies increases. While some investors consider the valuation of the index components when allocating to specific index funds, many and perhaps most do not. We would expect that many if not most investors picked an index fund when they signed up for their 401(k) plans and never looked back.

Index Fund Governance

As index fund ownership grows as a percentage of shares outstanding, the voting power of index fund managers increases. While on the one hand, one might believe this is good for America as these "permanent" owners should think very long term compared with the many investors whose average holding period is less than one year. On the other hand, there are significant drawbacks. Index funds managers are not compensated for investment performance, but rather for growing assets under management. They are principally judged on the basis of how closely they track index performance and how low their fees are.

While index fund managers are, of course, fiduciaries for their investors, the job of overseeing the governance of the tens of thousands of companies for which they are major shareholders is an incredibly burdensome and almost impossible job. Imagine having to read 20,000 proxy statements which arrive in February and March and having to vote them by May when you have not likely read the annual report, spent little time, if any, with the management or board members, and haven't been schooled in the industries which comprise the index. Consider how difficult this job would be when even the largest index funds have a hierarchy of only 20 or so people (one per ~1,000 companies) in their governance departments which determine how proxies for these companies should be voted.

Consider also the potential for conflicts. Index fund managers are highly incentivized to grow assets, particularly with the high degree of fee compression that is characteristic of the index and ETF worlds, and the fact that there is effectively no perceived downside to scale. Their focus on keeping fees low makes these operations inherently low-cost and laser focused on continued cost control rather than investing in building best-in-class governance oversight operations with sufficient scale to oversee thousands of companies.

Furthermore, corporate pension fund assets are one of the largest pools of capital invested in index funds. It does not help index fund managers win business from Corporate America if they have a reputation for being an activist or if they support activists. In fact, the opposite is likely true. If their reputation is more for protecting incumbent management than for supporting activists, they are much more likely to garner assets from corporate pension plans than index fund managers who are known to vote against management.

In 2015, the three largest index fund managers, who owned 18% of Dupont's stock, voted against Nelson Peltz and his firm's (Trian's) candidates for the board of directors, in what was described at the time as a major defeat for shareholder activism. The vote was extremely close as most active managers voted in favor of one or more of Trian's candidates. After the failed vote, Dupont's stock price declined precipitously.

While we have not done a large amount of due diligence on Dupont, based on our knowledge of the company and the situation, we believe that the issues raised by Trian were real, and the company would likely have benefited by the addition of one or more of the Trian nominees. Fortunately, the close proxy contest was a wake-up call for the board. Within 90 days of the vote, the company missed earnings and exhibited continued business deterioration. As a result, the CEO "retired voluntarily" and the company shortly thereafter announced a merger with Dow Chemical to address problems that Trian had identified.

What Happens When Index Funds Control Corporate America?
If the index fund trend continues, and it looks likely to do so, what happens when index funds control Corporate America? Courts have often deemed shareholders to be in control of a corporation with as little as 20% of the ownership of a company. At current rates of asset inflows, it will not be long before index funds effectively control Corporate America and the corporations of many foreign countries. The Japanese system of cross corporate ownership, the keiretsu, has been blamed for decades of Japanese corporate underperformance and economic malaise. Large passive ownership of Corporate America by index funds risks a similar outcome without the counterbalancing force of large active investors and improvements in the governance oversight implemented by passive index fund managers.

Fortunately, some of the largest index funds have begun to take corporate governance more seriously. You may remember from our partnership with Valeant to acquire Allergan that Allergan had devised various incredibly restrictive and burdensome notice provisions to call a special meeting that if we, along with other shareholders, had not been able to overturn, would have become a model for companies whose management teams seek to entrench themselves. In light of the importance of this issue, during the proxy contest, the CEO of one of the largest index fund managers personally attended our presentation when we met with them to seek their support. Later, I was invited to spend several hours with the board of this mutual fund complex to discuss governance issues in greater depth. This institution is taking governance very seriously, and we hope a more serious approach to governance becomes more pervasive in the index fund industry.

Certain other index fund managers during the Allergan special meeting proxy contest did not take this issue seriously, wouldn't even take a meeting on the issue, and did not ultimately support the calling of a special meeting where the future of Allergan could be discussed, despite the critical importance of this issue as it relates to corporate control of every company in the country. This was a serious corporate governance failure in our view.

As more and more capital flows to index funds, the seriousness with which these funds approach governance issues becomes even more critical for U.S. and global corporate competitiveness. While fees are clearly one of the most important factors for choosing among index fund managers, these funds' approach to governance is a critically important consideration for long-term investors to evaluate, as active oversight of Corporate America and global corporations is essential to the country's long-term business performance.[2]

Fortunately, there are important long-term economic incentives for index fund managers to take governance more seriously. The greatest threat to index fund asset accumulation is deteriorating absolute returns and underperformance versus actively managed funds. Index funds have had the proverbial winds at their backs as large and continuous asset flows support their performance. The problem of asset flows without regard to valuation is compounded by the fact that the most popular indexes are market-cap weighted. This means that the larger the market cap of the company, the larger its representation in the index. In other words, as the stock price rises, its weighting in the index increases, and the index fund is required to buy more of the company. While value investors typically buy more as stock prices decline (assuming intrinsic value has also not declined), market-cap weighted index funds do the opposite. They are inherently momentum investors, forced to buy more as stock prices rise, magnifying the risk of overvaluation of the index components.

Is There an Index Fund Bubble?

We believe that it is axiomatic that while capital flows will drive market values in the short term, valuations will drive market values over the long term. As a result, large and growing inflows to index funds, coupled with their market-cap driven allocation policies, drive index component valuations upwards and reduce their potential long-term rates of return. As the most popular index funds' constituent companies become overvalued, these funds long-term rates of returns will likely decline, reducing investor appeal and increasing capital outflows. When capital flows reverse, index fund returns will likely decline, reducing investor interest, further increasing capital outflows, and so on. While we would not yet describe the current phenomenon as an index fund bubble, it shares similar characteristics with other market bubbles.[3]

Consider by analogy the period leading up to the technology stock market collapse in early 2000. During that period, Berkshire Hathaway and other leading value investing practitioners' portfolios dramatically underperformed technology stock managers. This caused investors to withdraw capital from value managers and allocate capital to growth and technology investors until valuations reached bubble proportions. The tech market subsequently collapsed, with value investing dramatically outperforming so-called growth investing in the ensuing years. Last year, a similar phenomenon occurred as Berkshire Hathaway underperformed the S&P 500 index by more than 1,300 basis points despite the benefit of the market support provided from it being one of the index's largest components.

The fact that most of the investments that we have identified in recent years have been found outside of the S&P 500 perhaps is suggestive of the major index components' relative unattractiveness from a valuation perspective. It also explains why the shareholder bases of these non-index companies is comprised mostly of hedge funds and other active managers who, like Pershing Square, use discount to intrinsic value as a primary investment consideration.

[2] As many of these index managers are U.S. corporations, other interesting governance question arise about their corporate control and influence in foreign jurisdictions where activism is less prevalent.

[3] The recent underperformance of non-heavily indexed companies creates an opportunity for savvy index fund operators and a good long-term hedge for their businesses. Index fund managers should create index funds of under-indexed stocks.

The Pershing Square Portfolio Holdings Trade at a Large Discount to Intrinsic Value

While the Pershing Square funds have dramatically outperformed the S&P 500 since the inception of our first fund in January of 2004 by an average of ~1,000 basis points per annum, last year we substantially underperformed the market. As our investment holdings have not materially changed (we have sold some Mondelez and bought more Valeant as described further below) the result of this underperformance is that we believe that our portfolio is trading at the largest discount to intrinsic value in its 12-year history, other than perhaps during March 2009 at the market bottom.

While capital flows drive market prices in the short term, value drives markets over the long term. As an investor with substantial influence over the companies we own, we can be a catalyst to unlock, enhance, and protect their value. The low market valuation of, and our influence over, our portfolio companies give us confidence about our future performance. While the recent stock price declines impair our short-term performance, they should inherently increase the returns available in the future for our current or new investors.

The above would not be true in the event that recent declines in the market prices of our investments correspond with similar declines in their intrinsic values. Our principal job is to constantly make this assessment and reallocate capital appropriately. For investments which represent the substantial majority of our capital, our assessment of intrinsic value has remained stable, increased, or declined slightly due to currency and economic weakness in certain sectors, and we update this analysis continually.

Recent Portfolio Changes

As a result of relative stock price movements in our portfolio, Mondelez became a disproportionately large position in the funds, and Valeant became a smaller and, in our view, even more attractive investment. At year end, while we believed Mondelez was trading at a significant discount to intrinsic value, we reduced our stake in Mondelez through the sale of forward contracts representing 15 million shares at an average price of ~$44 per share, reducing our total ownership in stock and derivatives to ~105 million shares. We redeployed some of this capital by increasing our investment in Valeant through the net purchase of option contracts on the company, which we discussed in detail in our third quarter letter. We continue to be highly optimistic about the potential for Mondelez as it improves its operational efficiency and continues to grow while remaining an attractive merger candidate, and therefore, we expect to remain a substantial, long-term holder. While we are long-term investors, we always seek to optimize the risk/return profile of the portfolio by changing the weightings of existing holdings and comparing portfolio holdings with new investment opportunities, making adjustments and wholesale changes when appropriate.

The Current Opportunity Set

To that end, recent market conditions have created perhaps the richest universe of new opportunities for us to consider in recent years. During the last few months and weeks, companies that we have previously researched which met our standards for business quality, but whose valuations were not appealing, have dropped dramatically in price. We have multiple attractive new opportunities to consider, competing for internal human and capital resources.

This bodes well for the identification of new investment opportunities. That said, we are unlikely to make wholesale changes to the current portfolio as we find the valuations of our holdings extremely attractive. Still, we would be surprised if we did not add at least one new investment in the next few months.

Many of the investment opportunities we have identified over time have been created by the fact that the market appears to value companies based principally on short-term factors rather than long-term changes in intrinsic value. For example, in light of China weakness, commodity price declines, and the events in the U.S. energy markets, current earnings and future expectations for railroad volumes have declined somewhat. We believe that this has reduced Canadian Pacific's intrinsic value by perhaps 10% or so while its stock price has declined ~35% from its August 2015 high. The value of a business is determined by the present value of the cash it generates over its lifetime, not based on what next year's earnings are going to be. While the first year's cash flows in a discounted cash flow valuation carry the most weight in the calculation, years two through 20 and thereafter contribute many multiples of year one's value in determining the present value. This fact seems to be ignored by investors in today's markets. The market's short-term valuation approach coupled with the technical factors present in non-index supported companies can lead to short-term gross under-valuations and new long-term investment opportunities.

Hedging

While we have never attempted to hedge short-term market movements, we have always looked for ways to inexpensively hedge the risk of dramatic market declines. In 2007 and 2008, we benefited from inexpensive hedges and other investments we made shorting the credit of highly rated, highly leveraged companies. We largely abandoned this strategy in 2009 as corporations recapitalized and balance sheets improved, but we are always looking for attractive and asymmetric potential hedges that may also be interesting investments on the theory that the best hedges are investments that you would make even if there were no hedging benefit.

Because CDS have been an unattractive hedge, we have looked for other instruments and hedges which might protect us against "Black Swan"-type risks that may exist in the markets. Early last year, we identified two such risks, the risk of a dramatic deterioration in the Chinese economy and its highly valued stock market, and the risk of further declines in oil prices. While we believed that the Chinese stock market was in bubble territory, the cost of buying puts on the stock market was prohibitive. The same was true for puts on oil prices. While we did not believe that either risk was particularly material to our portfolio holdings, each had the potential to affect overall stock market values and general economic conditions. In the event of large stock market declines, we always like to have liquidity for new investments. Other than by generating cash from selling investments or by raising outside capital, short positions and hedges are the only way to generate cash when markets are plunging.

Last summer, we built large notional short positions in the Chinese yuan through the purchase of puts and put spreads in order to protect the portfolio in the event of unanticipated weakness in the Chinese economy. We also purchased puts on the Saudi Riyal as an inexpensive way to hedge against a continued decline in energy prices. Both of these currencies are pegged to the U.S. dollar, and therefore were inexpensive to hedge against the dollar as the pegs reduced volatility and the cost of put options. Two days after we began to build our position in the Chinese yuan, China did a 2% surprise devaluation which substantially increased the cost of the options we had intended to continue purchasing. We continued to build the position thereafter by buying slightly more out of the money puts and selling further out of the money puts so as to keep the cost and risk/reward ratio of the position attractive.

To date, despite the large notional size of this currency/market hedge and continued weakness in the yuan and growing pressure on the Saudi Riyal, we have made only a modest profit on these investments. Both China and Saudi Arabia have inadvisably, in our view, continued to expend hundreds of billions of dollars to protect their currencies pegs. Our currency puts, therefore, have not, to date, served to be a useful hedge against declines in our portfolio as our investments have declined much more dramatically than we would have expected in light of their limited exposure to the Chinese economy and oil prices. That said, we believe that both currency investments continue to offer an important hedging benefit and represent an attractive risk-reward, and therefore, we continue to hold them.

Organizational Update

Paul Hilal joined Pershing Square initially as a consultant in early 2006 and then full time in 2007. We started slowly because we didn't know how things would work because Paul's focus prior to Pershing Square was technology, and we had never made a technology investment. More significantly, Paul and I had known each other for many years having roomed together in college, and having stood by each other's side at our respective weddings. We knew that it can be difficult for close friends to work for and even partner with the other. We both thought our arrangement could last three to five years and possibly more if things worked out.

This January marks a full decade of Paul's commitment to the firm. He has been a great member of the team, and an important contributor to the firm's success. Paul is perhaps best known internally for his extremely deep research into companies and industries which have enabled us to broaden our investment universe. Beyond Paul's contributions and insights as a member of the investment team, has been his design and oversight of our analyst recruitment process that has brought us tremendous talent including Brian Welch, Anthony Massaro and Charles Korn.

While Pershing Square has been a great training environment for all of us including Paul, because we are a "one-product" and one portfolio firm, there is no opportunity for a more senior member of the team to manage his own portfolio while being at Pershing Square until I step aside from this role, which I have no plans to do. As a result, when members of the team have reached a stage where they want to manage their own portfolios, they have no choice but to leave to launch their own firm. Six years ago, Mick McGuire left to found Marcato Capital, and nearly four years ago Scott Ferguson left to form Sachem Head.

Beginning nearly two years ago, Paul and I initiated a discussion about when it might make sense for him to make the transition to pursuing his own venture. Paul is now ready to do his own thing and I expect him to be a great success. Whatever he decides to do, I encourage you to give him a close look. As we have with both Mick and Scott, we expect to partner on some new investment in the future with Paul and we look forward to that day. If you would like to reach Paul, please contact him at paul@pchcapital.com.

We are fortunate that we have had limited turnover on the investment team and throughout the firm since our inception. It makes my job easier as consistency in the team leads to greater overall efficiency and minimal organizational issues. The benefit of some turnover on the investment team is that it allows us to keep the team small – in my experience 10 or fewer team members is ideal to manage a highly concentrated portfolio – while allowing room for fresh talent to join the team. Today, I believe we have the best and most seasoned investment team since the inception of the firm. If you are attending this year's annual meeting, you will hear from each member of the team, and you will have an opportunity to judge for yourself.

Priti Jajoo, a member of the accounting team, and Maribeth Youngberg, an assistant to the investment team, have both chosen to stay home with their new babies. While we do our best to create an environment where mothers can return to the company after maternity leave and create the right work life balance - and many women on the team have returned after maternity leave - some of our team members have chosen to be full time moms, and that is of course a decision we greatly respect.

Humility

I have often stated that in order to be a great investor one needs to first have the confidence to invest without perfect information at a time when others are highly skeptical about the opportunity you are pursuing. This confidence, however, has to be carefully balanced by the humility to recognize when you are wrong. While no one here is enthusiastic about delivering our worst performance year in history in 2015, it certainly does a good job reinforcing the humility-side of the equation that is necessary for long-term investment performance. In 2016, we would like to generate results that reinforce the confidence side of the equation. Humility and skepticism will help get us there.

Sincerely,

William A. Ackman

Additional Disclaimers and Notes to Performance Results

Presentation of Performance Results and Other Data

The performance results of Pershing Square Holdings, Ltd. ("PSH" or the "Company") shown in this letter are presented on a gross and net-of-fees basis. Gross and net performance includes the reinvestment of all dividends, interest, and capital gains, and reflects the deduction of, among other things, brokerage commissions and administrative expenses. Net performance reflects the deduction of management fees and accrued performance fee, if any. All performance provided herein assumes an investor has been in PSH since its inception date and participated in any "new issues", as such term is defined under Rules 5130 and 5131 of FINRA. Depending on the timing of a specific investment and participation in "new issues", net performance for an individual investor may vary from the net performance stated herein. Performance data for 2015 is estimated and unaudited.

The inception date for PSH is December 31, 2012. The performance data presented on the first page of this letter for the market indices under "since inception" is calculated from December 31, 2012. The market indices shown on the first page of this letter have been selected for purposes of comparing the performance of an investment in PSH with certain well-known, broad-based equity benchmarks. The statistical data regarding the indices has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The indices are not subject to any of the fees or expenses to which the funds are subject. PSH is not restricted to investing in those securities which comprise any of these indices, its performance may or may not correlate to any of these indices and it should not be considered a proxy for any of these indices. The volatility of an index may materially differ from the volatility of PSH. The S&P 500 index is proprietary to and is calculated, distributed and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates and/or its licensors and has been licensed for use. S&P® and S&P 500®, among other famous marks, are registered trademarks of Standard & Poor's Financial Services LLC.

The chart on page 3 includes all of the public long positions in issuers currently held in our portfolio. "Peak-to-Jan-22-16 Decline vs. S&P 500" represents the percentage the position declined from 8/1/15 through 1/22/16 by reference to its highest and lowest share prices during such period, less the percentage the S&P 500 declined over the same period.

Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. It should not be assumed that investments made in the future will be profitable.

General Notes

This letter does not constitute a recommendation, an offer to sell or a solicitation of an offer to purchase any security or investment product.

Pershing Square may currently or in the future buy, sell, cover or otherwise change the form of its investment in the companies discussed in this letter for any reason. Pershing Square hereby disclaims any duty to provide any updates or changes to the information contained here including, without limitation, the manner or type of any Pershing Square investment.

Forward-Looking Statements

This letter also contains forward-looking statements, which reflect Pershing Square's views. These forward-looking statements can be identified by reference to words such as "believe", "expect", "potential", "continue", "may", "will", "should", "seek", "approximately", "predict", "intend", "plan", "estimate", "anticipate" or other comparable words. These forward-looking statements are subject to various risks, uncertainties and assumptions. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. Should any assumptions underlying the forward-looking statements contained herein prove to be incorrect, the actual outcome or results may differ materially from outcomes or results projected in these statements. None of the Company, Pershing Square or any of their respective affiliates undertakes any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law or regulation.

Risk Factors

Investors in PSH may lose all, or substantially all, of their investment in PSH. Any person acquiring shares in PSH must be able to bear the risks involved. These include, among other things, the following:

- PSH is exposed to a concentration of investments, which could exacerbate volatility and investment risk;
- Activist investment strategies may not be successful and may result in significant costs and expenses;
- Pershing Square may fail to identify suitable investment opportunities. In addition, the due diligence performed by Pershing Square before investing may not reveal all relevant facts in connection with an investment;
- While Pershing Square may use litigation in pursuit of activist investment strategies, Pershing Square itself and PSH may be the subject of litigation or regulatory investigation;
- Pershing Square may participate substantially in the affairs of portfolio companies, which may result in PSH's inability to purchase or sell the securities of such companies;
- PSH may invest in derivative instruments or maintain positions that carry particular risks. Short selling exposes PSH to the risk of theoretically unlimited losses;
- PSH's non-U.S. currency investments may be affected by fluctuations in currency exchange rates;
- Adverse changes affecting the global financial markets and economy may have a material negative impact on the performance of PSH's investments;
- Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect PSH's business, investments and results of operations;
- Pershing Square is dependent on William A. Ackman;
- PS Holdings Independent Voting Company Limited controls a majority of the voting power of all of PSH's shares;
- PSH shares may trade at a discount to NAV and their price may fluctuate significantly and potential investors could lose all or part of their investment;
- The ability of potential investors to transfer their PSH shares may be limited by the impact on the liquidity of the PSH shares resulting from restrictions imposed by ERISA and similar regulations, as well as a 4.75 per cent. ownership limit;
- PSH is exposed to changes in tax laws or regulations, or their interpretation; and
- PSH may invest in United States real property holding corporations which could cause PSH to be subject to tax under the United States Foreign Investment in Real Property Tax Act.