



# Investment Manager's Report

## LETTER TO SHAREHOLDERS

### To the Shareholders of Pershing Square Holdings, Ltd.:

2018 was an excellent year for PSH based on our portfolio companies' operating results and their general business progress. We outperformed our benchmark, the S&P 500, by 370 basis points with a 0.7% decline in NAV per share for the year.<sup>5</sup> Our performance was substantially stronger as of last year's third quarter, with PSH's NAV per share up 15.8% versus 10.6% for the S&P 500, before market turbulence and volatility unrelated to the businesses we owned intervened.

Since year end, more constructive market conditions and the continued operating progress of our portfolio companies have led PSH to generate strong 2019 year-to-date, absolute and relative performance of more than 31.9% versus 13.5% for the S&P, our best start to a year in the 15-year history of Pershing Square.

We attribute our improved performance to initiatives that we have implemented over the last 18 months. First, we refocused our investment strategy on the core principles that have driven our profitability since the inception of Pershing Square. Our portfolio today represents the results of our strategy of investing in simple, predictable, free-cash-flow-generative businesses which are protected by large competitive moats. Today, we own one of the highest quality collections of businesses we have owned since the inception of Pershing Square.

Second, as we previously disclosed, we restructured and simplified Pershing Square Capital Management by returning to our roots as an investment-centric operation rather than an asset management business with the attendant requirements to continually raise capital. We are no longer seeking to raise capital for the Pershing Square private funds. This has freed up substantial time and renewed focus which have enabled me and the other members of the investment team to invest nearly all of our business time and attention on the identification, monitoring, and oversight of our portfolio companies.

PSH now represents a large percentage of our capital under management. Excluding Pershing Square VI, our ADP co-investment vehicle, \$6 billion out of approximately \$8 billion of assets\*—about three quarters of our core assets—are now in PSH. I and other members of the Pershing Square team have materially increased our investment in PSH through market purchases, and now own more than 20% of shares outstanding, representing more than \$1 billion of PSH's shareholder equity. This provides PSH with a large, stable shareholder/manager whose interests are closely aligned with the long-term interests of all PSH shareholders.

The stability of our capital base is an enormous competitive advantage which should assist us in generating higher rates of return over time, particularly in light of the changes to the equity capital markets over the past decade, as many active managers have abandoned their strategies and become closet index investors, and/or their clients have left for index funds.

Many market commentators have described the stock market as “broken” and a “Wild West environment” as a result of the impact of large index ownership of equities and the disproportionate amount of trading and price discovery caused by ETFs, quantitative trading, and other non-fundamentally driven investment strategies. These developments have led to occasional market shocks and large mispricings of individual securities which can force investors with unstable capital to rush for the exits, leading to even greater dislocations. In a market break like that in December, downward volatility scares investors who in turn redeem capital from funds, forcing their managers to sell, causing further downward market movements, with the vicious cycle continuing until stocks get cheap enough and/or positive news flow causes a reversal of the above factors.

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\*PSH's assets are financed by \$5 billion of equity and \$1 billion of debt.



We took advantage of the year-end market downdraft by making a large new investment in Hilton Worldwide Holdings while other investors became forced or irrational sellers. We would likely have been sellers rather than opportunistic buyers had PSH been subject to the risk of investor redemptions.

As PSH now represents about three-quarters of our core assets—a percentage which is likely to increase over time as we are no longer seeking to raise capital in the core private funds—our assets are now a much better match for our investment strategy as a long-term, influential owner of high quality businesses undergoing business transformations. While our original business plan for Pershing Square did not contemplate that a substantial majority of our capital base would be represented by PSH in 2019, over the long term we expected that PSH would grow to become the majority of our capital. The faster arrival of this moment is a material positive development for PSH and our private fund investors as we can now invest capital largely without regard to shorter-term considerations in a world where most investors are constrained by short-term factors and unstable capital.

While our capital base is stable, there has been a significant amount of turnover in our shareholder base. As a result, I thought this year's letter might be a good place to provide a primer on PSH, particularly for our newer shareholders. Below, I have answered the questions I would ask if our positions were reversed, and you were the manager, and I the independent shareholder.

### **What is PSH's long-term goal?**

Our long-term goal is to maximize the long-term compound annual rate of growth in PSH's intrinsic value per share, which we estimate conservatively to be our net asset value or book value per share. Net asset value and book value are the same for PSH because our assets are marked to market in our financial statements.

### **Why did we choose a Guernsey-domiciled, closed-ended fund structure for PSH?**

We chose a Guernsey-domiciled, closed-ended fund structure for PSH because we believed it was the best and most tax-efficient alternative for a long-term investment operation with a strategy of acquiring minority interests in publicly traded corporations. Unlike corporations in jurisdictions where gains from sales of investments are taxable including in the U.S., PSH does not incur entity-level taxation when it sells an investment with a gain. Non-U.S. holders pay no taxes on activity that occurs at PSH other than withholding taxes on dividends. For U.S. holders, PSH is treated as a Passive Foreign Investment Corporation with tax treatment similar to that of a U.S. partnership, but with some important benefits and drawbacks. We recommend that you consult your tax advisor for more details.

### **How should one think about PSH?**

While PSH is legally a closed-ended fund, in our view it is best thought of as a tax-efficient investment holding company that owns minority interests in public companies which are of a quality and scale where legal control is often difficult if not impossible to achieve. Our strategy is to acquire smaller pieces of superb businesses over which we have substantial influence, rather than controlling interests in lower quality businesses. Today, PSH owns minority interests in ten "subsidiary" portfolio companies, as depicted on the next page:



The formal definition of a subsidiary is a corporation controlled by a holding company, where control is typically represented by a 50% or greater ownership interest. In the case of PSH's "subsidiaries," however, we have generally owned less than 20% of shares outstanding, and usually fewer than 10% of shares outstanding. Even so, we are always one of the largest shareholders of our investees, and we are an influential owner whether or not we have board seats, regardless of what percentage of the company we own.

Our influence in each situation varies depending on what is required to create value. In our existing portfolio, in some cases, we have selected some of the directors and/or the CEO. In one case, we took the business public through a merger with a special purpose acquisition company we controlled. In another, we influenced the long-term corporate structure. In one of our more active examples, we created the business from scratch by selecting assets from a then-portfolio company, placing them in a new subsidiary, identifying a new management team and board, and then we took the company public by injecting capital and spinning it off to shareholders. In two recent cases, we identified undervalued situations which already had excellent management and good governance with nothing for us to do other than applaud. Even in these initially more passive cases, we stand ready to be helpful, if and when help is necessary or we have a good idea to share. In sum, we do what is necessary and required to maximize the long-term value of each portfolio company.

### How does our form of influence differ from traditional corporate control?

The ability to change corporate policy is extremely valuable, which is why investors are typically prepared to pay premiums for control. In light of our strategy and track record for effecting change at large capitalization businesses over the last 15 years, we have been able to achieve a large degree of influence over the management, governance, and strategy of our portfolio companies without necessitating the purchase of a controlling interest, which nearly always requires the payment of a large premium. Rather, we have been able to acquire large minority stakes on the stock market often at large discounts to intrinsic value because of shareholder disappointment with the company's business progress or due to general stock market volatility. Our influence comes from the support of other shareholders who have benefitted from changes that we have implemented at our portfolio companies over the last 15 years.

The *quid pro quo* for our achieving influence without paying premiums for control is that we share the benefits of our occasionally expensive and time-consuming interventions with shareholders who often own 90% or more of the companies in our portfolio, and who don't do the same work or pay their share of the costs.

I have often been asked why we haven't attempted to take businesses private so that 100% of the benefits would inure to Pershing Square rather than to all of the shareholders. While we would not rule out the purchase of control of one of our companies (greater stability in our capital base makes this more possible and therefore more likely), (1) we are happy to share



any value we have helped create with other shareholders; (2) it is rare that one of our portfolio companies is available for sale; (3) going private transactions are inherently highly competitive, typically require the use of large amounts of leverage, and suffer from the so-called “winner’s curse;” and (4) we have found a strategy that works, so we intend to stick to it. Ultimately, it is the other shareholders’ support that has enabled us to achieve sufficient influence to effectuate change, and we are extremely grateful for that support. We believe, therefore, that it is entirely appropriate for the shareholders who have supported us to have the opportunity to share the rewards that we, with their support, have helped generate.

### **What kind of businesses does PSH own?**

Pershing Square Holdings has assembled one of the highest quality collections of “subsidiaries” in the world. Businesses like Restaurant Brands, Hilton, Starbucks, ADP, Chipotle, Howard Hughes, United Technologies, Lowe’s, Fannie Mae and Freddie Mac, each have high returns on capital, very long-term growth trajectories, wide competitive moats, unique and irreplaceable brands and/or other assets.

Great businesses achieve large capitalization status because of their favorable economic characteristics and difficult to penetrate competitive moats which have enabled them to compound their earnings and intrinsic value, often over decades. These businesses are rarely available for sale and would be difficult if not impossible to acquire even if offered for sale because of their large scale and their shareholders’ reluctance to sell such extraordinary businesses, other than at very large premiums to market.

### **Are there benefits to PSH from owning minority interests rather than controlling interests?**

The principal responsibilities of the management of a traditional holding company include portfolio company acquisition, oversight, and capital allocation. We perform these same responsibilities with less influence over our portfolio companies than if we had legal control, but with other materially important benefits. These benefits include a substantially greater universe of potential acquisition targets because they are publicly traded, and our ability to operate with much greater flexibility and liquidity.

Because PSH does not pay taxes on the sale of its holdings and owns minority rather than controlling interests, we have much greater flexibility when compared to other companies in making changes to our portfolio, the most important capital allocation decision of a holding company. As a minority owner, we can always purchase more of an existing investment if we are pleased with its business progress and the price remains or becomes even more attractive. We did so earlier last year in Chipotle shortly after the company hired CEO Brian Niccol, when the company’s share price was less than half of today’s market price, and 21% lower than our original cost.

While a holding company with 100% ownership of each of its subsidiaries, the more typical structure, would generally be able to effectuate changes more easily at each subsidiary because it has actual legal control, it would have other important drawbacks compared with PSH’s structure. It would not be able to acquire more ownership in a strongly performing, undervalued subsidiary, nor would it easily be able to reduce its interest in each subsidiary without incurring material tax, transaction, and other frictional costs, which include the time required to sell an interest in a private company. It would also incur the likely reputational and negative morale impact of one subsidiary’s sale on the employees of the holding company’s other subsidiaries.



## How do our portfolio companies' managements benefit from our strategy?

Our large minority ownership and our portfolio companies' publicly traded status have another very important benefit: it is often the ideal context in which to recruit the most experienced and talented management teams. Many of the best CEOs prefer to operate on a public stage with the access to capital that comes from public ownership, but without the leveraged capital structures that are typically used in private equity. The perceived downside to managing a traditional public company, however, is the short-term orientation of many Wall Street analysts and public market investors.

With the backing of a large shareholder who can "protect" them from Wall Street, our CEOs have found that they can have the best of public ownership along with the benefit of a private owner's orientation and long-term timeframe. Often, the changes that are necessary in a turnaround can take time, require large upfront expenditures, and don't fit within the demands of earnings guidance requirements and many investors' and analysts' short-term orientations. Pershing Square, as a large influential investor with a track record for successful turnarounds, can provide management with the required runway and necessary long-term backing to succeed.

While we generally have a large degree of influence, we use it sparingly with the management teams of our portfolio companies. Our first choice is to make sure that we have the best CEOs running the companies we own. With the right talent in place, we applaud their successes and wait for the phone to ring when they want input from us. Occasionally, we will ask a question, share an idea, or raise an issue. Most of the time, our CEOs rarely hear from us. More often, they seek us out. We view our job as oversight, not day-to-day management.

## What role do we play in capital allocation at our portfolio companies?

While we generally don't control dividend or buyback policies at our portfolio companies, we help to guide and/or support management teams and boards in the determination of appropriate capital allocation policies. As a result, companies that we own that generate excess capital which cannot be effectively used in their businesses or in acquisitions that make sense, distribute these funds to us and the other owners in the form of share repurchases or dividends. In general, we would not allocate capital differently at our portfolio companies if we owned 100% of their shares outstanding.

## What is the downside to PSH's corporate structure and domicile?

While PSH is more tax efficient and has greater flexibility in owning minority interests in corporations than a U.S. corporation, it does have a couple of drawbacks. First, we are unable, due to regulatory reasons, to list PSH in the U.S., and therefore are listed only in Amsterdam and London. As an investor in principally U.S. publicly traded corporations, PSH is an anomaly in being listed only in European stock markets. Because PSH is listed offshore, we are limited in how we may engage with U.S. investors. As a result, a large source of potential demand for PSH stock is largely unaware of the existence of the company.

The second big drawback of being structured as a European closed-ended fund rather than a U.S. corporation is that many investors lump PSH into a category with completely unrelated "investment funds" about which there is much received wisdom. While we chose the closed-ended fund structure for its tax benefits and long-term stable capital, for now we are branded with the closed-ended fund nomenclature and its negative perceived attributes.

The accepted wisdom is that European closed-ended funds will almost always trade at discounts to NAV as there is only a limited universe of dedicated buyers for these funds. What makes matters worse is that not only are we perceived to be a



European closed-ended fund which “should” trade at a discount, but we are also deemed to be a hedge fund by most investors and the media. In order to fix this perception, which we believe would improve the trading price of PSH, we need to change the way we are understood by investors.

### **How is PSH different from a typical long-short, equity hedge fund?**

Most equity hedge funds are short-term, passive, highly diversified investors in securities with large gross long and short exposures relative to capital, which use margin borrowings and derivatives to amplify their exposures. They have short-term, finite-life capital from their high net worth and institutional investors who obtain ownership through private placements. They have limited transparency, are not publicly traded, and do not return capital to their investors unless and until they receive redemption notices from investors.

By contrast, PSH is a long-term investor in a concentrated portfolio of high quality businesses over which we have substantial influence and often board representation. PSH is a publicly traded corporation with hundreds, and likely thousands, of shareholders with an independent board of directors, a corporate, infinite-life form, financed with a modest amount of investment-grade, unsecured, publicly traded bonds without mark-to-market covenants. We are listed on the London Stock Exchange and Euronext Amsterdam, provide a high-degree of transparency into our holdings, and report to our investors in public filings with weekly NAV updates, quarterly reports, and investor conference calls. We have returned substantial capital to shareholders having repurchased 9.5% of our shares in the last year and recently initiated a quarterly dividend of 10 cents per share. Pershing Square’s management owns more than 20% of shares outstanding as a result of open market purchases over the last 10 months.<sup>6</sup> While we have made one short sale investment in the last few years, we have no current intention of shorting stocks in the future.

When the comparison is made, I believe that Pershing Square Holdings, Ltd., whose legal form is a closed-ended fund, is best thought of as a publicly traded investment holding company, not a hedge fund or traditional closed-ended fund.

### **Is PSH undervalued?**

The Pershing Square strategy, as represented by Pershing Square, L.P., the fund with the longest track record, has generated a 14% compound annual return over more than 15 years, inclusive, of course, of the last few years of substantially below historical performance. We view the last few years as an anomaly, and expect that with continued focus on our core strategy, we have the potential to generate returns comparable to the first 11 years of Pershing Square (Note: over the first 11 years from January 1, 2004 to December 31, 2014, Pershing Square, L.P. compounded at 20.8% per annum).<sup>7</sup> With PSH’s stock currently trading at 72% of book value (Reminder: book value equals net asset value, as all of our holdings are marked to market in our financial reports), we believe that PSH is extremely undervalued, particularly as we are back on track with the core strategy that has generated our long-term success. We note that prior to the period of sub-par performance, PSH traded at a low single-digit percentage discount to NAV.

While compound annual long-term growth in net asset value per share will be the principal driver of long-term investor returns in PSH, it is our strong preference for PSH to trade at or around its intrinsic value, for which we believe book value or net asset value is a conservative estimate. While we can make some good arguments as to why PSH’s intrinsic value is greater than its NAV, for now, our short- to intermediate-term goal is to have PSH trade at or around NAV. This will give shareholders who need to sell the opportunity to exit at a fair price. In the current situation, with our stock trading at about a 28% discount to NAV—the widest discount in our history—it is, in our view, an opportunistic time to be a buyer, not a seller, of PSH.



## Would more share buybacks help?

While we are not opposed to share buybacks, we do not believe that material additional repurchases of shares at the present time are in the best interest of PSH shareholders. Large buybacks may in fact be counterproductive to reducing the discount. Last May's company self-tender for 9.5% of shares outstanding coupled with shares purchased thereafter by Pershing Square management have reduced the effective free float of PSH over the last 10 months by 24.5%.<sup>8</sup> Despite this substantial reduction in float, PSH's discount to NAV has widened further, and even more so in the first few months of 2019 during a period of very strong relative and absolute performance.

As PSH has become more closely held over time, PSH's trading liquidity has been reduced, making it more difficult for buyers and sellers to transact in the shares. This reduced liquidity increases the impact that a buyer or seller has on the trading price of PSH. The current share price's discount to NAV strongly suggests that there remain a number of selling shareholders who are not particularly sensitive to the discount they realize when selling shares. Rather, they are apparently more focused on the actual stock price realized. NAV has increased 31.9% year-to-date while PSH's stock price has increased by only 27.5% as the discount has widened. We believe that additional reductions in float will not only make it difficult for selling shareholders to sell, but will also make PSH less desirable for investors who wish to build a substantial position in PSH, further reducing the universe of potential buyers.

Buybacks also create other issues for PSH. In light of the reduced float and lesser liquidity of PSH shares, in order for us to repurchase a meaningful percentage of shares outstanding, we would likely have to pay a substantial premium to the market price. The potential accretion to NAV per share from such a purchase would be small relative to the return that we believe could be earned by investing the capital in an existing or newly identified investment.

For example, in July of last year, PSH invested \$495 million in Starbucks at an average price of \$51.30 per share. To date, the Starbucks' purchase has increased NAV by 476 basis points.<sup>9</sup> Had we instead used the same \$495 million to complete a second self-tender for PSH shares, we estimate that we would have had to pay a price which represented about a 15% or so discount to NAV in light of the tender's large size (about 15% of public shares outstanding) particularly in light of the company's \$300 million self-tender two months prior.

While an incremental \$495 million buyback at a 15% discount to NAV would have created an immediate 236 basis point increase in NAV, the benefit would have stopped there. The accretion in NAV would have been less than half the 476 basis points increase in NAV created by the Starbucks acquisition, which had the additional benefit of reducing, rather than increasing, our leverage. PSH also benefits from increases in Starbucks share price in the future.

Buybacks have other drawbacks as they reduce our shareholders' equity and increase our leverage. We would not be surprised to find that a higher leveraged PSH trades at a greater discount to NAV when compared to a less leveraged PSH. Furthermore, beyond our inherently conservative view of financial leverage, we believe that access to low-cost leverage will over time become an additional competitive advantage for PSH. As a result, we are cautious in the amount of leverage we are willing to incur relative to the market value of our assets, even though our bond covenants provide us with substantially more headroom—our bond's debt incurrence covenant would allow us to incur about twice as much leverage as we have now.

While we are not opposed to issuing more bonds as our net asset value and equity grows, we intend to make sure that our bondholders always have a substantial margin of safety, an approach which we expect will reward us over time with lower-cost, long-term financing. After all, our shareholders own the equity that comes after all of our bondholders have been paid in full, and, in management's case, conservatism in the use of leverage is particularly prudent as our ownership of PSH represents the substantial majority of our liquid net worth.



Buybacks also increase our percentage exposure to all of our existing investments. Assuming each holding is appropriately sized before the buyback, each will become oversized after the repurchase. As a result, a large share repurchase program would require us to immediately initiate a selling program in each of our holdings in order to resize them appropriately. As Pershing Square is one of the largest shareholders and often an insider, a portfolio-wide selling program would be a negative signal to other shareholders, and a meaningful negative in our relationships with our companies, their managements, and our performance.

All of the above said, we are not opposed to share repurchases in the event that (1) we have substantial free cash available for purchases, and do not believe that we will be able to identify an attractive new investment in the then-current market environment, (2) our existing holdings are trading at large discounts to their intrinsic value, (3) the repurchase will not cause PSH to be overleveraged, (4) the price paid is a very large discount to NAV, and (5) we do not believe that further reductions in float will be counterproductive to our goal of causing PSH to trade at or around intrinsic value.

#### Why did we introduce a quarterly dividend?

On February 13th, PSH announced the initiation of a quarterly dividend of 10 cents per share. While we are generally of the view that companies should pay dividends only in the event that they generate excess capital that cannot be used in their business, this is not the case at PSH. PSH is nearly fully invested, and there are a significant number of potential opportunities that we are considering. We and the Board chose to initiate a dividend as we believe it may have the benefit of substantially increasing the universe of potential long-term owners of PSH to include the large number of investors who will only buy common stocks that pay dividends. At its current level, the dividend consumes a sufficiently small amount of capital that it will not interfere with the implementation of our investment strategy. As a result, we believe that the trade-off of potentially attracting more long-term investors who could contribute to reducing the discount to NAV, compared with the resulting slightly smaller capital base, is a trade-off worth making.

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All members of the Pershing Square team are incredibly appreciative of your support which we expect to richly reward over the long term. As I have often said, experience is making mistakes and learning from them, and learn we have done. Pershing Square is better, stronger, and more capable because of the challenges we have faced and addressed.

It is the rare public markets investor that has the privilege to invest truly long duration capital. As the manager of Pershing Square Holdings, we intend to continue to exploit the opportunity to invest capital in a world comprised of competitors with capital structures that are short term and porous. We will work very hard to generate the profits that you deserve to earn in exchange for your support. While we operate in corporate form, we view you as our long-term partners in this endeavor. As your 20% partner, we are highly incentivized to achieve a great outcome for all.

On the pages that follow, we provide updates on our portfolio companies. We welcome any additional questions you may have at [IR-PershingSquareHoldings@camarco.co.uk](mailto:IR-PershingSquareHoldings@camarco.co.uk).

Sincerely,

William A. Ackman



## PORTFOLIO UPDATE

### Performance Attribution

Below are the contributors and detractors to gross performance of the portfolio of the Company for 2018 and year-to-date 2019<sup>(10)</sup>.

January 1, 2018 – December 31, 2018		January 1, 2019 – March 19, 2019	
Chipotle Mexican Grill, Inc.	6.2 %	Chipotle Mexican Grill, Inc.	8.5 %
Automatic Data Processing, Inc.	5.5 %	Restaurant Brands International Inc.	4.2 %
Starbucks Corporation	3.3 %	Automatic Data Processing, Inc.	3.5 %
Accretion (Relating to Share Buyback and Company Tender)	2.1 %	Federal National Mortgage Association	3.3 %
Lowe's Companies, Inc.	0.7 %	Hilton Worldwide Holdings Inc.	3.1 %
Federal Home Loan Mortgage Corporation	(1.6)%	United Technologies Corporation	2.1 %
United Technologies Corporation	(2.2)%	Lowe's Companies Inc.	2.1 %
Restaurant Brands International Inc.	(2.2)%	Federal Home Loan Mortgage Corporation	1.8 %
Federal National Mortgage Association	(3.0)%	Starbucks Corporation	1.8 %
Herbalife Ltd.	(3.3)%	The Howard Hughes Corporation	1.0 %
The Howard Hughes Corporation	(3.6)%	Platform Specialty Products Corporation	1.0 %
All Other Positions and Other Income and Expense	(1.2)%	Other Income and Expense	(0.3)%
<b>Net Contributors and Detractors</b>	<b>0.7 %</b>	<b>Net Contributors and Detractors</b>	<b>32.1 %</b>

Positions with contributions or detractions to performance of 50 basis points or more are listed above separately, while positions with contributions or detractions to performance of less than 50 basis points are aggregated.

Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying endnotes and important disclaimers on pages 98–100.

All year-to-date performance information is as of March 19, 2019.

### Chipotle Mexican Grill (“CMG”)

Chipotle’s strong performance in 2018 was driven by an organizational transformation and accelerated growth under a new world-class management team. Brian Niccol, formerly CEO of Taco Bell, joined Chipotle as CEO in March 2018. Pershing Square Advisory Board Member and Chipotle Board Member Ali Namvar was a member of the three-person CEO search committee that led the effort to identify and recruit Brian. In his first year at the company, Brian has moved quickly to execute a people and culture transformation, including the addition of key external hires in the roles of Chief Marketing Officer, Chief People Officer, Chief Legal Officer and Chief Development Officer, the elimination of two layers of management to streamline decision making and increase agility, and the relocation of Chipotle’s headquarters to southern California.

The new management team has revamped Chipotle’s approach to innovation and marketing. New initiatives now pass through a “stage-gate” process in which the company tests, learns, and iterates on each initiative so that management is highly confident in the probability of success before a national rollout. Marketing spend has been shifted from an inefficient field-based, promotion-driven approach to a centralized strategy that aims to elevate Chipotle from a food brand to a purpose-driven lifestyle brand.



Early signs that the new strategy is working have already emerged as demonstrated by same-store sales growth of 6.1% in the fourth quarter of 2018, including transaction growth of 2.0%. This was the highest level of same-store sales growth in the last six quarters, which had been negative since the summer of 2017. This return to transaction growth was underpinned by robust customer response to the “For Real” marketing campaign launched in October, and accelerated growth in digital sales, including delivery.

Chipotle shares appreciated 49% in 2018 and have increased a further 54% in the first few months of 2019. The company has made clear that driving robust same-store sales growth is the key priority for 2019, with growth initiatives identified in the areas of digital, marketing, menu, and operations. The company began the year with the highly successful introduction of a new menu option called Lifestyle Bowls in January, and then launched the next iteration of its marketing campaign in February. In March, the company launched its highly anticipated loyalty program nationally with further enhancements to digital ordering to speed up both pick-up and delivery expected in the coming months. The company has increased its store opening plans in 2019 as it has been able to achieve returns on new stores approaching peak historical levels.

We remain actively engaged on Chipotle’s board and are confident that management will continue to execute on the brand’s vast unrealized growth potential.

### **Automatic Data Processing, Inc. (“ADP”)**

ADP is a high-quality, defensive business which is in the early stages of a long-term transformation that should drive significant value creation as it closes the performance gap and achieves its structural potential.

2018 was a critical year for ADP. In response to our 2017 proxy contest, ADP made broad commitments to shareholders to accelerate revenue growth, bolster its competitive position (specifically in the enterprise market) and improve operational efficiencies and margins. ADP began to execute upon these commitments in 2018 and introduced new medium-term (fiscal year 2021) targets at its June 2018 Analyst Day.

At the Analyst Day, ADP provided a comprehensive update on the business trajectory and next-generation product portfolio. ADP committed to achieving accelerated revenue growth and operational efficiency improvements (targeting 23% to 25% adjusted EBIT margins) over the coming years. These projections represent substantial increases in management’s prior guidance. ADP’s new targets provide a credible plan for ADP to realize \$7 of earnings per share by FY 2021 (vs. \$4 at the time of our initial investment). We believe the targets still only capture a fraction of ADP’s structural potential, as we expect it will exceed its medium-term targets and make accelerated margin progress thereafter.

In support of the operating targets communicated at the Analyst Day, ADP executed numerous transformation initiatives in 2018, including accelerating the company’s Service Alignment Initiative, executing an Early Retirement Program, moving up the roll-out of its next-generation product portfolio and strengthening the talent and performance culture at the company. In support of ADP’s transformation, the company promoted a current executive to Chief Transformation Officer and has further bolstered the management team with new external hires (including a new Chief Strategy Officer and Chief Financial Officer). We view the hiring of external executives with relevant skills and fresh perspectives positively as it further assists ADP in executing on its transformation.

Recent financial results have provided some early validation of the transformation underway at ADP as evidenced by accelerated organic growth, significant margin expansion and upward revisions in current fiscal year 2019 earnings-per-share guidance which now stands at \$5.30 to \$5.40 per share (an increase of 17% to 19% over the previous year). We believe ADP’s ongoing transformation will be further demonstrated over the coming quarters.



We believe ADP can sustain mid-to-high-single-digit top-line growth, which when coupled with the substantial opportunity to improve ADP's cost structure and the high operating leverage realized on incremental revenue, should allow ADP to compound earnings per share at a mid-to-high-teens growth rate for many years. At present, ADP trades at 25 times our estimate of next-twelve-months earnings which is below our estimate of the company's intrinsic value based upon its high-quality defensive business and accelerated earnings growth profile. ADP shares appreciated 14% in 2018 including dividends and 19% 2019 year-to-date.

### **Restaurant Brands International (“QSR”)**

QSR's franchised business model is a high-quality, capital-light, growing annuity that generates high-margin brand royalty fees from three leading brands: Burger King, Tim Hortons and Popeyes. The company's unique business model allows it to capitalize on its significant long-term unit growth opportunity with minimal capital investment. QSR's strong overall business performance continued during 2018 with 25% EPS growth, which reflects strong business progress and the benefits of the refinancing of the 9% Buffett preferred. The company grew total net units by 5%, with 6% growth at Burger King, 2% at Tim Hortons and 7% at Popeyes. Same-store-sales increased by 2% at both Burger King and Popeyes and 1% at Tim Hortons.

Since the end of 2017, QSR has taken several actions to combat the recent slowdown in same-store sales at Tim Hortons. The company replaced Tim Hortons management with the team that had previously turned around weak same-store sales at Burger King, improved relations with franchisees, and unveiled a new operating plan entitled “Winning Together,” which is focused on improving the restaurant experience, new product development, and brand communications.

During 2018, Tim Hortons launched all-day breakfast, a kids menu, and a store reimaging program. This month, the company also launched its loyalty program nationwide after successfully testing it in select markets. We believe the company's recent initiatives are already generating better results, as same-store sales momentum improved in each quarter throughout 2018, with a 2% increase in the fourth quarter. Earlier this year, QSR elevated Daniel Schwartz to Executive Chairman and promoted Jose Cil to CEO. We believe Jose's deep operational experience and successful 18-year track record at Burger King position him well to lead QSR.

In 2018, QSR's share price, including dividends, declined 12% due to concerns regarding soft same-store sales at Tim Hortons earlier in the year and the broader market downturn in the fourth quarter. The share price is up 23% this year, primarily reflecting significant improved fourth quarter results at Tim Hortons. QSR currently trades at 22 times our estimate of this year's free cash flow, which is a discount to lower-growth franchised peers and below our estimate of intrinsic value. We believe that continued improvement at Tim Hortons, and the opportunity for the company to tell its story at its first QSR investor day in May, will highlight the company's significant long-term growth potential and serve as potential catalysts for future share price appreciation.



## Lowe's Companies, Inc. ("LOW")

Lowe's was one of four new investments in 2018. Lowe's is a high-quality business led by a new, high-caliber management team that has committed to meaningfully narrowing the performance gap with its direct competitor, Home Depot. We initiated our investment after the company announced a CEO search process. In May, Lowe's announced that Marvin Ellison, a former senior executive at Home Depot, would become CEO. We believe that Marvin has the relevant experience, leadership qualities and skill-set to allow Lowe's to achieve its potential. Since Marvin started in July, he has assembled a new leadership team of seasoned executives, many of whom previously worked with him at Home Depot.

In December, management hosted an Analyst Day and outlined a credible plan to narrow the performance gap with Home Depot. Lowe's strategy is centered around better execution of "retail fundamentals," including enhanced merchandising, transforming its supply chain, achieving operational efficiencies, and better engaging with its customers. The new plan calls for Lowe's to achieve a 12% operating margin over the medium-term compared with its current operating margin of 9.2%, and Home Depot's operating margin of 14.6%. Achieving these targets will generate significant profit improvement which, when coupled with the company's large and ongoing share repurchase program, will further accelerate future earnings per share growth.

While Lowe's has already demonstrated early signs of progress, we believe the positive impact of the company's business transformation will become more pronounced over the course of 2019. Lowe's currently trades at 17 times analyst estimates of 2019 earnings, a discount to Home Depot, even though these estimates do not incorporate the potential for future profit improvement. We believe that there is substantial upside potential as Lowe's narrows the performance gap with Home Depot, which will significantly increase earnings, and likely result in a valuation that better reflects the company's underlying business quality and long-term growth prospects.

In 2018, Lowe's share price, including dividends, appreciated 8% from our initial average cost, as initial investor excitement regarding the turnaround potential was partially offset by concerns regarding recent weakness in the housing market. We believe that there is likely further upside to the housing cycle as many of the fundamental drivers of the housing market remain intact. Furthermore, Lowe's derives a meaningful portion of its revenue from less-cyclical repair and maintenance spend, which should moderate the impact of fluctuations in the housing cycle. In 2019, the company's share price has increased 13%.

## Starbucks ("SBUX")

Starbucks, a new addition to the portfolio in 2018, is the global dominant brand in the specialty coffee category, with 30,000 owned and licensed stores that generate approximately \$35 billion in annual systemwide sales. The category benefits from a loyal customer base with a frequent consumption habit and trade-up potential. Starbucks' market position is protected by a wide moat with competitive advantages over both low-cost and boutique players. Starbucks is one of the rare mega-cap businesses with a long runway for reinvesting free cash flow at exceptionally high rates of return. New Starbucks stores have industry-leading unit economics, which we estimate generate a pretax return on investment of 55% in the U.S. and 75% in China. The company should continue to grow revenues at a high-single-digit rate driven by unit growth in underpenetrated markets such as China where per-capita coffee consumption is less than 1% of U.S. levels, and product innovations which have generated continued same-store-sales growth.

Despite an enviable long-term track record, Starbucks' stock was down modestly over the three years prior to our investment while earnings grew 50% over that timeframe, allowing us to acquire Starbucks shares at a 25% discount to the company's



historical average valuation multiple of 26 times forward earnings. We believe that the reduced valuation was driven by concerns regarding a slowdown in U.S. same-store sales, the perceived risk to its achieving its long-term financial growth targets, and uncertainty due to the company's senior leadership transition and management turnover.

Starbucks has demonstrated strong progress in addressing each of these concerns since we made our investment. Driven by a resurgence in Starbucks' core beverage category, U.S. same-store sales grew 4% in each of the last two quarters, following four consecutive quarters of between 1% and 2% growth. Tailwinds that should drive continued growth include the rollout of the Nitro cold beverage platform from 40% of the store base in January to 100% by the end of September, new marketing efforts to less frequent customers, loyalty program changes to allow members to earn rewards more quickly, the rollout of delivery, and the wind-down of inventory rationalization efforts. Management unveiled updated long-term financial growth targets at its biennial investor day in December, which we believe will prove to be conservative over time, particularly management's operating profit margin guidance. We are impressed by the bold actions the new leadership team has taken to simplify the business and drive improved results including portfolio realignment, an ongoing overhead reduction program, and a \$20 billion share buyback program, which should reduce shares outstanding by about 20% over the 2018-2020 timeframe.

In 2018, Starbucks' shares including dividends increased 27% from our average cost at inception and an additional 11% year-to-date in 2019. Despite this outsized return since our investment, we believe prospective returns remain compelling as the company should continue to grow long-term earnings at a high rate due to strong secular growth and outstanding unit economics.

### **Hilton Worldwide Holdings Inc. ("HLT")**

We reestablished an investment in Hilton in the fourth quarter of 2018 as the decline in the company's share price provided us with an opportunity to once again own Hilton at an attractive valuation. We previously owned a small investment in Hilton in 2016, but sold our stake as its share price appreciated rapidly during our accumulation period. Hilton is a high-quality, asset-light, high-margin business with significant growth potential led by a superb management team.

We believe that Hilton has a unique competitive moat: its large and growing network of brands and properties offers a robust self-reinforcing value proposition for both guests and hotel owners. For guests, Hilton provides a consistent and reliable experience in a large variety of destinations at diverse price points, as well as an attractive loyalty program with enhanced awards, amenities, and customer service. For hotel owners, Hilton provides access to its more than 85 million loyalty program members, large-scale marketing programs, best-in-class reservation and IT systems, and supply chain purchasing power, which collectively allow hotel owners to achieve superior, above-market rates of return on capital.

Hilton's robust value proposition for its franchisees and partners has allowed the company to expand its room count by 6% to 7% per year, a key driver of Hilton's long-term growth. We believe that Hilton can maintain its current pace of unit growth over the long term as the company expands its international footprint with existing brands, continues to create new brands, and converts unbranded hotels to Hilton's network of brands. Hilton's current pipeline, more than half of which is under construction, amounts to 40% of its existing hotel rooms. In addition, secular growth in travel should underpin strong revenue per available room ("RevPAR") growth (a measure of same-store sales for the lodging industry) over the longer term. While we expect RevPAR to remain positive over the coming years, unlike a typical hotel owner, Hilton's fee-based, asset-light business model insulates the company from the outsized negative impact on profitability from potential short-term declines in RevPAR.

We believe Hilton can sustain attractive high-single-digit, top-line growth, which, coupled with cost-control and a robust share repurchase program, should allow it to compound earnings per share at a mid-teens growth rate for many years.



At present, Hilton trades at less than 23 times our estimate of 2019 earnings, a discount to its historical average, and below our estimate of the company's intrinsic value based upon its high-quality, fee-based business model and strong future growth potential. We believe sustained execution by Hilton's management team will demonstrate the durability of Hilton's business model, which we believe is currently underappreciated by the market. Hilton's share price, including dividends, declined 2% in 2018 from our initial average cost, but has returned 20% year-to-date.

### United Technologies ("UTX")

United Technologies, another new investment in 2018, is a high-quality industrial conglomerate which owns market-leading businesses with favorable long-term growth trends and recurring cash flows in the aerospace, elevators and HVAC industries. We believe that UTX has one of the most advantaged business portfolios in the multi-industrial sector, as each of its businesses has significant barriers to entry, high switching costs, substantial pricing power and large future growth potential. The company's multi-year backlog and recurring service contracts both underpin its future growth and moderate UTX's cyclicality.

After disclosing our investment in February, we met with management and expressed our view that the company's three businesses are more likely to perform better and achieve fair value as independent companies as they each possess unique fundamental drivers, capital requirements, competitive characteristics, and investor constituencies. In November, shortly after completing its value-enhancing acquisition of Rockwell Collins, the company announced a three-way separation of the company into Aerospace, Otis Elevator, and Carrier. During 2018, UTX's organic revenue grew 8% and EPS grew 14%. Despite strong business results and the announcement of a value-creating business separation, UTX's share price declined 16% during the year from our average cost due to investor dissatisfaction with management's protracted announced timeframe to complete the separation, and the broader market downturn in the fourth quarter. The share price has since rebounded 20% in 2019 as UTX reported strong fourth quarter results and revised the separation timeline to a shorter period.

UTX currently trades at a lower multiple of earnings (15 times) and at a wider sum-of-the-parts discount to peers (30%) than at the time of our initial investment despite significant business progress, the closing of a value-enhancing acquisition, and the announcement of a value-creating business separation. We believe the upcoming separation, which should be completed by early 2020, will likely serve as a catalyst for future significant share price appreciation.

### The Howard Hughes Corporation ("HHC")

During 2018, HHC continued to make strong business progress. It recently reported the highest level of residential land sales in its master planned communities in HHC's history. Sales of units in HHC's Ward Village in Hawaii remained strong. Since the initial pre-sale launch of units in 2014, Ward Village has sold more than 1,900 condo units generating total proceeds of over \$2.2 billion at projected 30% gross margins. In addition, HHC now has 50 million square feet of development entitlements within its existing portfolio and is nearing completion of the South Street Seaport development in downtown New York.

HHC's share price decreased 26% in 2018 and rebounded 13% year-to-date in 2019. While HHC has now operated independently since 2010, it operated quietly, out of view from much of the investment community until 2017 when it had its first Investor Day. Despite HHC's recent public facing efforts, the company is still not well followed or understood by the investment community which, in our view, is one of the reasons why the company's stock declined in the fourth quarter. HHC tends to be grouped with homebuilding-related stocks, which declined in the fourth quarter as the market focused on potential housing headwinds.



Today, HHC owns a highly diversified portfolio of operating assets that generate consistent cash flows. We expect that over time, as other investors gain a better understanding of HHC's business and appreciate that it has different and more favorable economic characteristics than a homebuilder, HHC will achieve a valuation that is more reflective of its intrinsic value that continues to grow at a rapid pace.

### **Fannie Mae ("FNMA", or "Fannie") and Freddie Mac ("FMCC", or "Freddie")**

Following a difficult 2018 driven primarily by a lack of progress on housing finance reform, FNMA and FMCC common and preferred shares have rebounded sharply in the first few months of this year as the probability of a favorable resolution to the status of both companies has increased. Favorable recent developments include repeated comments from Treasury Secretary Steven Mnuchin citing GSE reform as a key priority for 2019; the U.S. Treasury, on behalf of the taxpayer, achieving an annualized return on its Senior Preferred Stock investment greater than the originally bargained for 10% rate; Democrats winning control of one branch of Congress in the 2018 midterm elections increasing the odds of administration-led reform, and, new leadership at FHFA, Fannie and Freddie's primary regulator, with Joseph Otting serving as Acting Director while Mark Calabria awaits Senate confirmation.

While we believe that Congress has an important role to play in housing finance reform efforts, we do not believe that the administration will allow a gridlocked, divided Congress to cause it to miss the window for achieving an end to the current untenable status quo. Completing one of the largest private capital raises in history necessitates favorable economic and financial market conditions like the current environment, with GDP growth at robust levels, unemployment at record lows, and national home prices and stock market indices at or near all-time highs. We believe that 2019 is the optimal time for action, ahead of the next presidential election in 2020, and that Treasury has a unique opportunity to exercise its warrants in Fannie and Freddie and utilize over \$150 billion of these profits to fund key government priorities.

FNMA and FMCC common shares declined 60% and 58%, respectively, in 2018, but have since increased 149% and 136% year-to-date in 2019. FNMA and FMCC preferred shares declined 20% and 6% during 2018 and have increased 28% and 26% year-to-date in 2019.

### **Exited Positions**

We exited our investments in Mondelez International, Nike Inc., and Herbalife Ltd in 2018, and Platform Specialty Products Corporation in 2019.



# Endnotes and Disclaimers

## ENDNOTES TO CHAIRMAN'S STATEMENT

<sup>i</sup> Calculated with respect to Public Shares only. Performance results are presented on a net-of-fees basis. Net returns include the reinvestment of all dividends, interest, and capital gains and assume an investor has participated in any "new issues" as such term is defined under Rules 5130 and 5131 of FINRA. Net returns also reflect the deduction of, among other things, management fees, brokerage commissions, administrative expenses and performance allocation/fees (if any). Past performance is not a guarantee of future results.

<sup>ii</sup> Please see Endnote 3 in "Endnotes to Company Performance and Investment Manager's Report".

<sup>iii</sup> Holdings of affiliates of the Investment Manager have not been aggregated for regulatory reporting purposes.

<sup>iv</sup> As of February 12, 2019.

<sup>v</sup> The Company's total debt to capital ratio is calculated in accordance with the "Total Indebtedness to Total Capital Ratio" under the PSH Bonds' Indenture. Under the Indenture, the Company's "Total Capital" reflects the sum of its NAV and its "Total Indebtedness". Total Indebtedness reflects the total "Indebtedness" of the Company and any consolidated subsidiaries (excluding any margin debt that does not exceed 10% of the Company's total capital), plus the proportionate amount of indebtedness of any unconsolidated subsidiary or affiliated special investment vehicle.

As defined in the Indenture, "Indebtedness" reflects indebtedness (i) in respect of borrowed money, (ii) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof), (iii) representing capital lease obligations, (iv) representing the balance deferred and unpaid of the purchase price of any property or services (excluding accrued expenses and trade payables in the ordinary course of business) due more than one year after such property is acquired or such services are completed or (v) in respect of the Company's capital stock that is repayable or redeemable, pursuant to a sinking fund obligation or otherwise, or preferred stock

of any of the Company's future subsidiaries. Indebtedness does not include, among other things, NAV attributable to any management shares or hedging obligations or other derivative transactions and any obligation to return collateral posted by counterparties in respect thereto.

## ENDNOTES TO COMPANY PERFORMANCE AND INVESTMENT MANAGER'S REPORT

1. Performance results are presented on a net-of-fees basis. Net returns include the reinvestment of all dividends, interest, and capital gains and reflect the deduction of, among other things, management fees, brokerage commissions, administrative expenses and historical or accrued performance allocation/fees (if any). Performance results assume an investor has been invested in PSLP since inception and participated in any "new issues", as such term is defined under Rules 5130 and 5131 of FINRA. Where the Company's performance is presented with that of PSLP, results also assume that an investor invested in PSLP at its inception on January 1, 2004 and converted to PSH at its inception on December 31, 2012. Depending on the timing of an individual investor's specific investment in the Company and/or PSLP, net performance for an individual investor may vary from the net performance as stated herein. The cumulative return for an investor who invested in PSH at its inception through March 19, 2019 is 33.0%
2. PSLP's net performance results are presented as it is the Pershing Square fund with the longest track record and substantially the same investment strategy to the Company. The inception date for PSLP is January 1, 2004. In 2004, Pershing Square earned a \$1.5 million (approximately 3.9%) annual management fee and PSLP's general partner earned a performance allocation equal to 20% above a 6% hurdle from PSLP, in accordance with the terms of the limited partnership agreement of PSLP then in effect. That limited partnership agreement was later amended to provide for a 1.5% annual management fee and 20% performance allocation effective January 1, 2005. The net returns for PSLP presented herein reflect the different fee arrangements in 2004, and subsequently,



except that the performance of the tranche of interests subject to a 30% performance allocation and a 5% hard hurdle (non-cumulative) issued on January 1, 2017 is not reflected in PSLP's returns. In addition, pursuant to a separate agreement, in 2004 the sole unaffiliated limited partner of PSLP paid Pershing Square an additional \$840,000 for overhead expenses in connection with services provided unrelated to PSLP, which have not been taken into account in determining PSLP's net returns. To the extent that such overhead expenses had been included as fund expenses of PSLP, net returns would have been lower.

3. The S&P 500 Total Return Index ("index") has been selected for purposes of comparing the performance of an investment in the Company or PSLP as applicable (together the "Pershing Square funds") with a well-known, broad-based equity benchmark. The statistical data regarding the index has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The index is not subject to any of the fees or expenses to which the Pershing Square funds are subject. The Pershing Square funds are not restricted to investing in those securities which comprise this index, their performance may or may not correlate to this index and they should not be considered a proxy for this index. The volatility of an index may materially differ from the volatility of the Pershing Square funds' portfolios. The S&P 500 is comprised of a representative sample of 500 U.S. large cap companies. The index is an unmanaged, float-weighted index with each stock's weight in the index in proportion to its float, as determined by Standard & Poor's. 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. © 2018 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.
4. The inception date for the Company is December 31, 2012 and the inception date for PSLP is January 1, 2004. The performance data presented on page 2 under "Cumulative (Since Inception)" is calculated from January 1, 2004.

5. Performance information is presented as net returns. Please refer to endnote i of the Chairman's Statement and endnote 3 in "Endnotes to Company Performance and Investment Manager's Report".
6. Please refer to endnote iii of the Chairman's Statement.
7. Please refer to endnote 2 in "Endnotes to Company Performance and Investment Manager's Report".
8. Effective free float refers to the number of Public Shares not owned by affiliates of Pershing Square.
9. While this increase is not necessarily representative of PSH's portfolio as a whole, it is included to illustrate an investment decision we faced in July 2018. There is no guarantee that this position will remain in the portfolio in the future.
10. This report reflects the contributors and detractors to the performance of the portfolio of the Company. Positions with contributions or detractors to performance of 50 basis points or more are listed separately, while positions with contributions or detractors to performance of less than 50 basis points are aggregated. From May 2, 2017 to January 2, 2018, the Company engaged in a share buyback program whereby its buyback agent repurchased Public Shares subject to certain limitations. In May 2018, the Company purchased and cancelled 22,271,714 Public Shares pursuant to the Company Tender. The accretion from the share buyback program and the Company Tender is reflected herein.

The contributions and detractors to performance presented herein are based on gross returns which do not reflect deduction of certain fees or expenses charged to the Company, including, without limitation, management fees and accrued performance allocation/fees (if any). Inclusion of such fees and expenses would produce lower returns than presented here.

In addition, at times, Pershing Square may engage in hedging transactions to seek to reduce risk in the portfolio, including investment-specific hedges that do not relate to



the underlying securities of an issuer in which the Company is invested. The gross returns reflected herein (i) include only returns on the investment in the underlying issuer and the hedge positions that directly relate to the securities that reference the underlying issuer (e.g., if the Company was long Issuer A stock and also purchased puts on Issuer A stock, the gross return reflects the profit/loss on the stock and the profit/loss on the put); (ii) do not reflect the cost/benefit of hedges that do not relate to the securities that reference the underlying issuer (e.g., if the Company was long Issuer A stock and short Issuer B stock, the profit/loss on the Issuer B stock is not included in the gross returns attributable to the investment in Issuer A); and (iii) do not reflect the cost/benefit of portfolio hedges. Performance with respect to currency hedging related to a specific issuer is included in the overall performance attribution of such issuer.

The contributors and detractors to the gross returns presented herein are for illustrative purposes only. The securities on this list may not have been held by the Company for the entire calendar year. All investments involve risk including the loss of principal. It should not be assumed that investments made in the future will be profitable or will equal the performance of the securities on this list. Past performance is not indicative of future results. Please refer to the net performance figures presented on page 2.

11. While the Pershing Square funds are concentrated and often take an active role with respect to certain investments, they will own, and in the past have owned, a larger number of investments, including passive investments and hedging-related positions. “Short Activist Positions” includes options and other instruments that provide short economic exposure. All trademarks are the property of their respective owners.

It should not be assumed that any of the securities transactions or holdings discussed herein were or will prove to be profitable, or that the investment recommendations or decisions Pershing Square makes in the future will be profitable or will equal the investment performance of the securities discussed herein. Companies

shown in this figure are meant to demonstrate Pershing Square’s active investment style and the types of industries in which the Pershing Square funds invest and were not selected based on past performance.

### *Limitations of Performance Data*

Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. This report does not constitute a recommendation, an offer to sell or a solicitation of an offer to purchase any security or investment product. This report contains information and analyses relating to all publicly disclosed positions above 50 basis points in the Company’s portfolio during 2018. 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 report 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 report 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.



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