

Pershing Square Capital Management, L.P. Releases Letter to Investors

London, 25 March 2020 // - Pershing Square Capital Management, L.P. today released the following letter to investors:

Dear Pershing Square Investor,

On March 3, 2020, we disclosed that we had acquired large notional hedges which have asymmetric payoff characteristics; that is, the risk of loss from these hedges was limited, while their potential upside was many multiples of our capital at risk. We did so because of our concern about the negative effect of the coronavirus on the U.S. and global economies, and on equity and credit markets. Below, we summarize the events that have taken place since the initiation of the hedges that have led us to unwind them using the proceeds to increase our exposure to existing and new investments.

Since our purchase of the hedges, U.S. and global equity and credit markets have declined dramatically while our hedges have increased substantially in value. Furthermore, beginning last week various U.S. state governments have aggressively confronted the health and economic risks of the coronavirus through unprecedented state-led, non-essential business closures and shelter-in-place/stay-at-home implementations or “lockdowns,” (a word we don’t love, but we haven’t found a better one).

As the virus has worked its way west, the only method that has proven successful to stop the rise in infections, sickness, and death is a strong-form lockdown, first implemented in Wuhan, on Monday night in the U.K., and Tuesday in India. In the United States, California and New York went into lockdown first, and were followed by Connecticut, Delaware, Illinois, Indiana, Hawaii, Louisiana, Massachusetts, Michigan, Nevada, New Jersey, New Mexico, Ohio, Oregon, Washington, West Virginia, Wisconsin, with more likely to come soon. Others like Florida, Missouri, Pennsylvania, and Texas have initiated weaker-form lockdowns in parts of their states.

We believe it is inevitable that in order to halt the advance of the virus and preserve the ability of local, city, and state healthcare systems to deal with the volume of critical care patients, nearly all states will eventually initiate strong-form, non-essential business closures and stay-at-home regulations.

Some have argued that we should fully reopen the economy now, as the coronavirus kills mostly the old and immune-compromised, and a relatively small percentage of those infected. Beyond the ethical considerations of such an approach, it has become increasingly clear that the high percentage of younger U.S. citizens with co-morbidities – including obesity, diabetes, and hypertension, as well as those who take medications for other conditions that reduce immunity, and/or who smoke or vape – will have a substantially higher death rate than has been experienced in other countries. Furthermore, overwhelming the healthcare system will not only increase the death rate from the coronavirus, it will also magnify the loss of life from heart attacks, strokes, and automobile accidents as these trauma patients also lose access to overcrowded ICU beds and emergency rooms.

Because states cannot close their borders, a rolling program of state-led lockdowns is highly suboptimal as states in lockdown can be re-infected by visitors, and their exiting residents can infect other states when they depart in advance of the lockdown. When the Chinese government announced the lockdown of Wuhan, millions of Wuhan residents left in advance of the curfew, spreading the virus throughout

China and the rest of the world. As each U.S. state has announced its own lockdown, many of its residents have left, spreading the virus around the country.

Even though California and New York went first, they will not be able to safely reopen their states for business until approximately three to four weeks after the last state initiates its shutdown, as they would risk reinfection by residents entering from non-lockdown states. For this reason, we believe that the federal government will soon initiate a total-US shutdown with a defined reopening date about 30 days later. If the federal government does not impose such a lockdown, we believe it is likely that effectively all fifty states will do so eventually, with the additional delay costing many thousands of more lives, and much greater economic destruction.

You don't need to be a virologist, immunologist, or epidemiologist to understand why a 30-day nationwide lockdown makes sense. The coronavirus cannot live outside its host, the human body, for more than four or five days, and then, only if the virus is on plastic or metal. If we minimize human interaction for two weeks or so beyond the infection and viral shedding period of approximately two weeks, we can, therefore, vastly reduce, and eventually cap the growth in cases.

A 30-day, countrywide lockdown will have the additional benefit of helping the healthcare system and its supply chain catch up to the growing case load in order to meet the immediate needs of our hospitals and their patients. State governors like NY Governor Andrew Cuomo, with the support of the federal government, are heroically working to address this problem on behalf of our citizens. As New Yorkers, we are incredibly grateful for Governor Cuomo's leadership which will save many lives.

It is critical to have a defined lockdown period for the entire country. Most businesses can afford to, and will choose to retain their employees if they know that their business can reopen in a short, defined period of time as it is extremely time consuming, expensive and difficult to rehire high quality, trusted talent. This is even more true when the federal government provides financial support to these businesses during the lockdown. Unfortunately, the large job losses that we are seeing today are due to the indeterminate nature of the shutdowns that have been announced. It is the rare business that can afford to pay its employees for months without a date certain that they can reopen.

Upon completion of an enforced lockdown, the country can be reopened carefully as China has so far successfully done. The key to a successful reopening beyond the maintenance of social distancing, hand washing, mask use and other related practices is a broad-based testing regime and tracing program. This will enable the inevitable viral breakouts to be identified early and minimized with localized quarantines, reducing the impact on the overall U.S. economy and the need for future shutdowns. Until there is a vaccine, however, seniors and other at-risk members of the population will need to exercise a high-level of caution.

It has been extraordinarily challenging to fight the invisible enemy. We can fix this by using antibody blood tests to determine (1) who has been infected, is thereby immune and can return to work, (2) who is actively infected and needs to be quarantined, and (3) who is uninfected. Broad-based antibody-based screening will also give us an accurate estimate of what percentage of the population is actually infected allowing us to better estimate the percentage who become critically ill from the virus, who have limited if any symptoms, and a more accurate estimate of the death rate. Antibody blood screening tests have the advantage of being able to accurately and rapidly identify not only infected patients, but also those who have previously been exposed to the virus, but were not known to be

infected, either because they never developed symptoms, or had symptoms that were never correctly diagnosed.

Antibody tests can be deployed in a much more cost-effective manner to detect community spread, and with much greater accuracy and scalability than the current drive-thru, nasal swab PCR test. They require only a simple blood test and can yield results in hours rather than days and can be administered by Quest Diagnostics or Labcorp much like a traditional blood test. Imagine how differently and effectively we could have managed this crisis if we actually knew who was infected.

The Pershing Square Foundation just invested capital to help scale the manufacture of antibody testing kits produced by Covaxx, a newly formed subsidiary of United Biomedical Inc., a company with decades of experience in the development, registration, manufacture and distribution of viral testing kits and vaccines. Covaxx has already deployed over 100,000 COVID-19 antibody tests across China (Hubei, Beijing, Shanghai) and in the U.S. Covaxx is currently deploying its COVID-19 tests across San Miguel County, Colorado ([article link](#).) Covaxx believes it can scale its COVID-19 test to hundreds of millions of tests in relative short order. To learn more, please contact Mei Mei Hu at mhu@unitedbiomedical.com

The federal government and the U.S. Treasury have intervened in financial markets in an unprecedented fashion, and the Congress is on the brink of passing legislation which will help bridge the economy and our country's workforce and citizens during what we believe to be a temporary but massive economic shock. We are encouraged by the Treasury Secretary's and Administration's all-in approach to mitigating the damage to the capital markets, and for keeping financial markets functioning and open, which are critical for our economy and capitalism to work.

For all of the above reasons, we became increasingly positive on equity and credit markets last week, and began the process of unwinding our hedges and redeploying our capital in companies we love at bargain prices that are built to withstand this crisis, and which we believe will flourish long term.

On March 23rd, we completed the exit of our hedges generating proceeds of \$2.6 billion for the Pershing Square funds (\$2.1 billion for PSH), compared with premiums paid and commissions totaling \$27 million, which offset the mark-to-market losses in our equity portfolio. Our hedges were in the form of purchases of credit protection on various global investment grade and high yield credit indices. Because we were able to purchase these instruments at near-all-time tight levels of credit spreads, the risk of loss from this investment was minimal at the time of purchase.

We have redeployed substantially all of the net proceeds from our hedges by adding to our investments in Agilent, Berkshire Hathaway, Hilton, Lowe's, and Restaurant Brands. We have also purchased several new investments including reestablishing our investment in Starbucks which we sold in January. The proceeds of the hedges have enabled us to become a substantially larger shareholder of a number of our portfolio companies, and to add some new investments, all at deeply discounted prices. Even after these additional investments, we maintain a cash position of about 17% of the portfolio.

We continue to expect that markets (and our performance) will remain volatile, and therefore, new opportunities may present themselves that are superior to investments we currently own. This may lead us to sell certain of our existing holdings including investments we recently purchased. We may also choose to reestablish similar or different forms of hedges or raise more cash based on developments with the coronavirus and other market factors. In other words, we are more likely to have higher portfolio turnover in this environment.

We are in one of the most challenging periods of time for our country, and for the world. Thousands of people have or will soon become severely sick, and many will die. This is a tragedy that could have been prevented with better long-term planning, which should have begun more than a decade ago. I have always said that experience is making mistakes and learning from them. And learn from this we must.

Sincerely,

William A. Ackman

About Pershing Square Capital Management, L.P.

Pershing Square Capital Management, L.P. ("Pershing Square"), based in New York City, is a SEC-registered investment advisor to investment funds.

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