Investment Manager's Report

PERFORMANCE

Pershing Square Holdings, Ltd. Performance vs. the S&P 500		
	PSH Net Return [(1)]	**S&P 500**[(3)]
2013	9.6%	32.4%
2014	40.4%	13.7%
2015	(20.5)%	1.4%
2016	(13.5)%	11.9%
YTD through June 30, 2017	(2.3)%	9.3%
Q3 through August 15, 2017	0.5%	2.0%
YTD through August 15, 2017	(1.7)%	11.5%
January 2013 – August 15, 2017 [(2)]		
Cumulative (Since Inception)	4.0%	90.3%
Compound Annual Return	0.8%	14.8%

PERFORMANCE ATTRIBUTION[(4)]

Below are the attributions to gross performance of the portfolio of the Company through June 30, 2017.

Winners	
Restaurant Brands International Inc.	5.8%
Nomad Foods Limited	1.3%
Chipotle Mexican Grill, Inc.	1.1%
Platform Specialty Products Corporation	1.1%
Hilton Worldwide Holdings Inc.	0.9%
The Howard Hughes Corporation	0.8%
All Other Positions	0.5%
Total Winners	11.5%

Losers	
Herbalife Ltd.	(4.3)%
Federal National Mortgage Association	(2.6)%
Mondelez International, Inc.	(2.5)%
Federal Home Loan Mortgage Corporation	(1.5)%
Valeant Pharmaceuticals International, Inc.	(1.0)%
All Other Positions	(1.1)%
Total Losers	(13.0)%
Total Winners and Losers YTD through June 30, 2017	(1.5)%

Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying footnotes on page 13.

Positions with performance attributions of at least 50 basis points are listed above separately, while positions with performance attributions of 50 basis points or less are aggregated.

Despite modestly negative performance of the Company year-to-date, our portfolio companies have made substantial business progress which we discuss further below. Over the intermediate to long-term in the stock market, business performance has been inexorably reflected in share price performance. Below we show the year-to-date contribution to performance of each of our publicly disclosed investments held during 2017, along with total shareholder returns during 2017 for each issuer.

Pershing Square Holdings, Ltd. Performance as of August 15, 2017 (5)

	Total Shareholder Return(6)	Gross Portfolio Return
Restaurant Brands International Inc.	26.2%	4.7%
Nomad Foods Limited	55.0%	1.6%
Automatic Data Processing, Inc.	15.5%	1.4%
Platform Specialty Products Corporation	28.4%	1.1%
Hilton Worldwide Holdings Inc.	13.0%	0.9%
The Howard Hughes Corporation	5.3%	0.5%
Air Products and Chemicals, Inc.	3.4%	0.3%
Valeant Pharmaceuticals International, Inc.	(25.0)%	(1.0)%
Federal Home Loan Mortgage Corporation	(29.7)%	(1.1)%
Chipotle Mexican Grill, Inc.	(14.5)%	(1.7)%
Federal National Mortgage Association	(30.0)%	(2.0)%
Mondelez International, Inc.	(0.2)%	(2.2)%
Herbalife Ltd.	29.7%	(2.9)%
All Other Positions	N/A	(0.4)%

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Total Shareholder Return may not be perfectly correlated with Gross Portfolio Return due to certain factors, including interim changes in the size of the position due to purchases and sales during the period.

It has been a somewhat unusual year as there has been a high degree of dispersion in the portfolio as substantial gains in certain investments have been offset by significant losses in others. Except for Valeant, where our loss is permanent as we have exited that investment, we believe that the other sources of negative performance will reverse to become material contributors over time.

We have made four new investments in the last year (we exclude one immaterial commitment which increased in price as we began to build our position), which is a slightly higher than normal pace of investment. Two of these were passive investments that we sold at a profit, Hilton Worldwide Holdings, which we discuss below, and a continued undisclosed investment. We remain an owner of the two active investments, Chipotle and Automatic Data Processing (ADP), which are both in an early stage of investment.

At Chipotle, we have achieved an appropriate level of influence over the company as we added two directors along with two mutually agreed upon directors to the board, who now represent a majority of the independent directors of the company. We have an excellent working relationship with management and the board. We believe they are making substantial business progress as we discuss further below, despite an unfortunate recent health incident at one restaurant (unrelated to Chipotle's supply chain).

We are now working to achieve an appropriate degree of influence as the largest owner of ADP by the November annual meeting of the company.

NEW INVESTMENT

Automatic Data Processing, Inc. (ADP)

ADP is a classic Pershing Square investment. It is a simple, predictable, free-cash-flow generative business that has underperformed its potential. As a conservatively financed, capital-light business with long-term customer relationships in a sector with substantial positive growth, we believe it has modest downside. If it is able to achieve its potential, we believe it offers substantial upside. We acquired ADP for the funds along with a co-investment vehicle (PSVI) which we recently raised to increase our ownership of the company.

We believe that ADP is one of the highest quality businesses we have owned, and one which offers an enormous opportunity for operational improvement. Earlier today, we shared our research and its conclusions on ADP with the investing public on a webcast. We highlighted the sources of underperformance of the company and the opportunities for operational enhancement. You can view the webcast at www.ADPascending.com.

It has been five years since the inception of our investment in Canadian Pacific (CP), where we had to wage a proxy contest to obtain board seats in a long-term activist portfolio holding. (While we did run a slate in the Allergan situation in 2014, it was in the context of a hostile takeover which we consider to be a fundamentally different type of situation.) As in CP, we approached ADP and offered to share privately our due diligence and analysis with the board to see if we could work together to unlock value for all shareholders. We requested a one-week extension of the nominating deadline in order to accommodate such a meeting. The board was unwilling to grant an extension, and therefore, we announced our slate on Monday, August 7, 2017 in advance of the deadline. We were disappointed by the company's response, but it is by no means unprecedented. We have learned from experience that often the greatest opportunities for profit exist at companies that are the most resistant to and threatened by change.

Our experience in this situation has been analogous to the inception of our investment in CP. As in CP, we were offered the opportunity to meet with the CEO and Chairman. As in CP, we believe the company in its public statements and filings mischaracterized our meetings and conversations with the CEO and Chairman. For a detailed summary of our interactions with the company, please read the "Background to This Solicitation" section of our recent proxy filing which you can find here. Fortunately, it now appears that the board is willing to engage. The ADP board has recently asked to interview our board candidates and offered to meet with us on September 5, 2017. We look forward to the opportunity to share our due diligence and analysis with the full board.

PORTFOLIO UPDATE

Mondelez International, Inc. (MDLZ)

On August 2, 2017, Mondelez reported second quarter 2017 results. Underlying organic sales growth was essentially flat excluding the impact of a global cyberattack in late June that disrupted the systems of a number of large corporations including Mondelez. Europe, Mondelez's largest region, delivered its fifth consecutive quarter of underlying volume growth. Many emerging markets, including India, Mexico, and Southeast Asia, grew strongly, while others such as Brazil and the Middle East continued to suffer from challenging macroeconomic conditions that should improve over time. While North America sales declined, we are optimistic that this region will turn to growth in the second half of the year driven by new product launches as well as expected retail shelf space gains in the biscuits category.

Operating profit margins expanded in the second quarter to 15.8%, as the company's zero-based budgeting program delivered cost reductions in both overhead and advertising spend. Year-to-date operating profit margins were 16.3%, putting the company well on its way towards management's goal of a mid-16% margin for 2017. Management remains committed to its 2018 operating profit margin target of 17% to 18%, and has stated that it has good visibility to expand margins after 2018.

Concurrent with its earnings release, Mondelez announced that Dirk Van de Put, currently the President and CEO of McCain Foods, would succeed Irene Rosenfeld as CEO in November. We have enjoyed our constructive and rewarding relationship with Irene Rosenfeld over the years and wish her well. We look forward to learning more about Dirk Van de Put's strategic vision in the months ahead.

With its leading global snack brands, dominant market shares, deep international routes-to-market, meaningful presence in the emerging economies, and significant future cost savings opportunity, Mondelez is one of the few large cap food companies with strong visibility to grow both revenues and earnings for the foreseeable future. With Mondelez's stock trading at approximately 18 times our estimate of 2018 earnings, we believe that the market is significantly discounting the company's earnings growth potential and its strategic appeal in a consolidating industry.

Restaurant Brands International Inc. (QSR)

Restaurant Brands reported continued earnings growth for the second quarter of 2017. The company delivered strong net unit growth at each of its three brands and significantly improved Popeyes' cost structure in its first full quarter of ownership. Same-store-sales growth was mixed, as Burger King returned to growth and Tim Hortons results modestly declined.

Same-store-sales this quarter showed strong growth of nearly 4% at Burger King, with 3% growth in the U.S. as the company struck a better balance between value and premium offerings. Tim Hortons' same-store-sales declined just under 1%, due to weakness in its baked goods offerings and lunch day part. A recent public dispute with a group of franchisees may have also contributed to the decline this quarter. We believe the company is taking the appropriate steps to improve franchisee relationships and expect that the recent introduction of espresso-based drinks and a new mobile app will enhance future sales.

Net units grew 6%, the highest rate in several years, reflecting strong growth across all of the brands. The company also announced an agreement with an existing Burger King franchisee to develop Tim Hortons restaurants in Spain, which represents the brand's fourth international development agreement.

As a result of same-store-sales and net unit growth, Restaurant Brands' organic revenue grew 6%. The company also continued to reduce costs, most notably at Popeyes, where margins increased by nearly 1,500 basis points. As a result of strong top line growth and cost reduction, Restaurant Brands grew organic EBITDA 9% this quarter. Reported EBITDA grew 6%, due to the headwind from the strengthening U.S. dollar.

We sold approximately 25% of our stake in QSR as its strong price appreciation year-to-date, and over the last 12 months, made it a disproportionately large percentage of the portfolio.

The Howard Hughes Corporation (HHC)

Howard Hughes initiated an effort this year to increase visibility and transparency into its business. HHC started conducting quarterly conference calls and releasing a quarterly supplemental information package, which provides investors and analysts with additional detailed data about its business. HHC conducted its first ever Investor Day on May 17, 2017 at the South Street Seaport in New York City. Pershing Square also presented Howard Hughes at the Sohn Conference on May 8, 2017 in a presentation entitled SimCities. We believe that the increased transparency will showcase the significant underlying value at HHC over time.

HHC continues to make steady progress across its three business lines – Operating Assets, Strategic Developments and Master Planned Communities (MPCs). In its Operating Asset portfolio, Howard Hughes has steadily increased its projected stabilized net operating income target to $245 million. In its Strategic Development segment, Howard Hughes sold an additional 65 condo units at Ward Village in Hawaii during the first half of the year, increasing the percentage of total units closed or under contract at its four condo towers to 85%, with three towers at more than 93% sold, and the fourth at 69%. The South Street Seaport is on track to open in New York City in summer 2018. In its MPCs, HHC will likely generate over $100 million in land sales at Summerlin (Las Vegas) for the fifth year in a row. Land sales are increasing in Houston as that market is showing signs of a rebound as crude prices have stabilized.

HHC refinanced its existing bonds with a new $800 million bond issuance in a positive net present value transaction, saving 150 basis points in interest and extending the maturity date by 3.5 years. It then subsequently closed on an incremental $200 million bond add-on at a yield-to-worst of less than 5%. HHC now has $660 million of cash on its balance sheet, which will allow it to finance its remaining development projects without the need to raise additional equity capital.

David Weinreb, HHC's CEO, sold some of his expiring warrants, exercised warrants to purchase $50 million of common stock and agreed to purchase $50 million in new warrants from the company which he is restricted from selling or hedging for the next five years. Along with a smaller purchase by Grant Herlitz, HHC's President, this is one of the largest investment commitments that we have seen by a management team.

During the quarter we net settled our HHC warrants shortly before their expiration according to their terms (the warrants were not exercisable). By doing so we slightly reduced our notional exposure to HHC, disposed of the only Level 3 asset that we owned, and now own only HHC common stock and total return swaps.

Chipotle Mexican Grill, Inc. (CMG)

Although Chipotle has made significant progress in improving its business and driving a sales recovery since early 2016, the company suffered an unfortunate setback in mid-July in the form of a norovirus incident at a single restaurant in Virginia. Norovirus is a common and highly contagious illness affecting nearly 20 million Americans each year and is unrelated to Chipotle's food supply chain. The incident in Virginia was the result of a failure in one restaurant to comply with the company's procedures used to minimize the risk of a norovirus outbreak. While Chipotle has already implemented a robust and advanced food safety program, the company will continue to build a culture of compliance in its operations through relentless training and enforcement of its policies.

Despite this setback, we are pleased that Chipotle has taken a number of significant steps since Pershing Square's initial investment to position the company for long-term success. These steps include (1) the dismantling of the co-CEO structure and the appointment of Steve Ells as sole CEO; (2) a major board refresh that reconstituted half of the current board with new directors, including investment team partner Ali Namvar and Pershing Square advisory board member Matthew Paull; (3) a renewed focus on simplifying operations and delivering an excellent guest experience which has led to improvements in key performance metrics; (4) the strengthening of the leadership team with the additions of a proven restaurant operations executive from Arby's in the newly created role of Chief Restaurant Officer and a seasoned communications executive with over 20 years of public affairs experience at Yum! Brands as the first-ever Chief Communications Officer; and (5) the opening of the Chipotle NEXT Kitchen to explore the operational impact of potential menu innovation.

Potential new menu additions in various stages of testing include queso, the single most requested item by guests, frozen margaritas, new salad greens served with an avocado citrus dressing, and buñuelos, a crispy cinnamon dessert served with a Chipotle-infused chocolate dipping sauce. On the technology front, the company is on track to launch a new mobile app later this year which will provide substantial improvements to the digital experience for its customers.

We made our investment in Chipotle anticipating that the sales recovery would be neither smooth nor predictable, but with a belief that the key drivers of Chipotle's powerful economic moat and long-term success would remain intact. With the steps that the company has taken to improve its business, we continue to believe there is an enormous long-term growth opportunity for Chipotle given: (1) the significant potential to drive sales per restaurant higher through mobile and digital ordering, menu innovation, catering, and improved operations, (2) the opportunity to expand its vastly underpenetrated restaurant base in the U.S., and (3) the considerable potential to build the brand internationally.

Air Products and Chemicals, Inc. (APD)

APD continues to deliver strong results for its shareholders. On July 27, 2017, the company reported that Fiscal Q3 earnings per share grew 15%, driven by 8% revenue growth from increased volumes and 90 basis points of underlying margin expansion. Revenue growth was driven by organic growth and contributions from new plants coming on stream. Margin performance reflects continued operating efficiencies. Management has stated that they "have more work to do on productivity" and that "they continue to see productivity opportunities." Equipment sales, which are more episodic, added to APD's strong performance.

While foreign currency headwinds have been a material drag on APD's results in recent years, we expect this dynamic will start to become a modest tailwind assuming that rates stay at current levels. A modest global recovery in industrial activity is another positive factor that we expect will fuel further growth.

In addition to the organic growth APD has achieved, the company continues to bring on stream growth capex projects, including large facilities in India and China, which are producing results. Growth capex continues to drive meaningful increases in cash flow despite significantly reduced capex budgets as new projects benefit from the capable underwriting of CEO Seifi Ghasemi and his team.

One of the largest catalysts for APD's further value creation remains the use of the company's excess capital. The company currently has approximately $5 billion of investment capital, comprised of cash and leverage capacity. Management expects this amount to grow to $8 billion over the coming three years, as the company generates annual cash flow of approximately $1 billion before growth capex and after dividends. On the recent call, CEO Seifi Ghasemi reiterated that the company will be disciplined in deploying this cash in value-generating projects.

We reduced our position in Air Products during the quarter for portfolio management reasons.

Platform Specialty Products Corporation (PAH)

Platform reported strong earnings this quarter due to continued organic revenue growth and positive results from its ongoing cost savings initiatives. Platform's organic revenue increased 2%, as Performance Solutions grew 6% and Ag Solutions declined 2%. The growth in the Performance Solutions segment was due primarily to the positive results of the electronics business it recently acquired from Alent and strength in its industrial business. The modest decline in Ag Solutions resulted from poor weather conditions in Eastern Europe and the restructuring of its business in Africa. Ag Solutions reported positive growth in all of its key regions outside of Eastern Europe and Africa.

Platform's organic EBITDA increased 8% due to strong results in both segments. Performance Solutions organic EBITDA grew 7% due to revenue growth and ongoing cost synergies from the acquisition of Alent, which was somewhat offset by a higher mix of sales from lower margin products. Ag Solutions organic EBITDA grew 9% in spite of the decline in revenue due to increased sales of higher-margin products and continued cost reductions in the business.

Platform's overall EBITDA grew 6% due to a 2% headwind from the strengthening U.S. dollar. As a result of interest savings from the company's recent debt refinancing and its leveraged capital structure, EPS grew roughly 25%.

Nomad Foods Limited (NOMD)

Nomad continues to make significant progress with its "focus on the core" strategy under CEO Stefan Descheemaker. In Q1 2017 Nomad delivered its first quarter of positive top-line growth and the sixth consecutive quarter of sequential improvement in sales trends. For the quarter, like-for-like sales growth was +1.1% despite a ~100 basis points headwind from this year's later Easter timing.

Iconic brands and core categories in each of its markets, which management has dubbed Must-Win-Battles (MWBs) are the key drivers of performance. Having grown 5.5% in Q1, MWBs represent 70% of revenue and will continue to drive top-line results for the company. Italy, the UK and Germany, the company's big three markets and the core of the legacy Iglo business, are all now back on solid footing with the new strategy in place. While NOMD will not report Q2 earnings until later this month, the company indicated in its Q1 release that Q2 was off to a good start across the company, and that trends have been sustained at good growth levels that will be further aided in the second quarter by the timing of the Easter holiday.

The company raised its guidance for the year. Nomad expects to achieve mid-to-high single digit growth in underlying EBITDA, the result of low single-digit like-for-like revenue growth, continued cost controls and synergies from the Findus acquisition. In addition to the positive operating results, the company completed a favorable debt refinancing that extended its maturities from 2020 to 2024 and will generate €14mm of annual cash interest savings. The company remains highly cash flow generative, and had €372mm of cash on its balance sheet at the end of the first quarter.

Fannie Mae (FNMA) / Freddie Mac (FMCC)

Fannie and Freddie have cost us substantial performance this year as their large share price gains after the November U.S. Presidential election have nearly completely retraced. Both stocks have fallen by approximately 30% year-to-date. They are trading modestly above our average purchase prices of nearly four years ago despite substantial increases in intrinsic value since that time (albeit these increases have been offset by a nearly 100% sweep of the profits of both companies by the U.S. government), and the growing potential for a resolution of their status.

Over the last nine years since the financial crisis, the Congressional dialogue around Fannie and Freddie has changed dramatically, and in a manner which we believe is favorable for shareholders. We believe the consensus view in Congress and the White House is that the 30-year prepayable fixed rate mortgage, which is the bedrock of middle-class housing values and affordability, is essential for the economy and the American people, and would not exist without Fannie and Freddie. In addition, there is a growing consensus that the U.S. government must play a role as a catastrophic guarantor for the housing financing system, and that the private sector should pay a market-based fee for that support. As importantly, the government would like the private sector to invest a large amount of capital in a first loss position to protect the government's guarantee from ever being called upon.

We believe that there is a growing consensus that the simplest and lowest risk solution to address each of these key considerations is the reform and restructuring of Fannie and Freddie supported by a large capital raise from the private sector and the retained earnings of the two companies. In order for this capital to be raised, the investment proposition for new investors has to be appealing. No new investor will invest in Fannie and Freddie unless historic investors are protected from, and compensated for, the expropriation of profits from the two companies that took place with the cash-flow sweep transaction that has swept more than $270 billion of profits from Fannie and Freddie since the crisis.

Wall Street's memory of injecting tens of billions of dollars into Fannie and Freddie just prior to their conservatorship, and the expropriation of both companies' profits forever, just as they began to turn profitable, is still fresh. Completing the largest capital raise in history in a newly restructured Fannie and Freddie will not be achievable unless and until investors in the companies are treated fairly and receive commitments that the extra-legal action of the past will be reversed and not reoccur. We believe this is understood in Washington.

We are fortunate that two of the most financially sophisticated Senators in Washington, Senators Corker and Warner, have taken the lead on housing finance reform and have suggested that they will put forth new legislation shortly to address this last remaining restructuring of the financial crisis. We believe that this initiative combined with support from the Treasury Secretary has dramatically increased the chances of a favorable resolution for the country and for investors in Fannie and Freddie, including the government, which is not reflected in their current share prices.

Since the government and taxpayers own 79.9% of the common stocks of both companies, the interests of shareholders and the government are largely aligned. Fannie and Freddie offer one of the few potential opportunities for political compromise in the current political environment as a resolution could generate tens of billions of dollars for taxpayers and reduce the risk of future government outlays. For all of the above reasons, we believe that there is likely to be significant positive developments at both companies in the short term which are not reflected in their share prices.

Herbalife Ltd. (HLF) Short

On Monday, August 14, 2017, Chinese media outlets reported that the Chinese government has launched an investigation and crackdown on multi-level marketing and pyramid selling companies. HLF's stock declined 5.25% on the day's news. As we previously noted in our first quarter letter, Herbalife updated its risk-factor disclosures in its first quarter 10Q, adding new language about regulatory risk in China. China is approximately 20% of Herbalife's revenues. A substantial decline or shutdown of HLF's China business would have a material adverse effect on the company.

With the implementation of the FTC mandated injunctive relief in late May, the second quarter provided the first opportunity for investors to witness its partial effects on Herbalife's financial performance. While the changes to its U.S. business practices were only in place for a fraction of the second quarter, Q2 results were disappointing to HLF investors and analysts from a top line perspective as volume declined 8% year-over-year. Year-over-year constant currency sales declines in North America (-18%), South & Central America (-9%), Mexico (-1%) and Asia Pacific (-1%) were partially offset by growth in EMEA (+4%) and China (+5%). Note that China benefited in the quarter from the recognition of certain revenue for product which was shipped in Q1 (ahead of a price increase) but was in transit at quarter end; for context, China volume declined 14% year-over-year, a more accurate measure of current trending.

We expect the U.S. business to continue to suffer as distributors attempt to comply with the new restrictive elements of the FTC consent order, with the full impact more evident in Q3 and thereafter. The company materially reduced Q3 implied and full year top-line guidance as the business begins to adapt to the significant changes required in its largest market (the U.S.). Other regions of the world remain weak including major markets such as China, South Korea, Brazil, and Mexico. We expect sequential operational deterioration to continue and to weigh further on Herbalife's share price.

During the second quarter, HLF stock increased significantly after the company announced a large share buyback despite a reduction in guidance and substantial insider selling. While Herbalife's share price has declined approximately 16% from its June high, it has still appreciated approximately 30% year-to-date. We believe this result is largely due to technical factors and financial engineering, as significant share repurchases, more than 5% of shares outstanding since February, cost deferrals and one-time tax benefits have enabled the company to meet and increase EPS targets despite deteriorating underlying business performance.

HLF continues to trade at a high valuation multiple particularly when compared to its actual GAAP earnings. Remarkably, investors appear to have accepted the company's Non-GAAP EPS metric which excludes interest expense on its $1.15 billion substantially out-of-the-money convertible note that is due in 2019. Adding back interest expense to earnings as if it were not an expense is perhaps the most aggressive example we have seen of Non-GAAP earnings addbacks. Herbalife also adds back expenses "related to regulatory inquiries," expenses "related to the FTC settlement implementation," and "expenses related to challenges to the company's business model."

We expect continued business deterioration and ongoing regulatory and public relations issues for the company, which should lead to further stock price declines. This is likely to be compounded by Herbalife's aggressive buyback program.

EXITED POSITION

Hilton Worldwide Holdings Inc. (HLT)

During the quarter we exited our previously undisclosed passive investment in Hilton Worldwide Holdings at a 32% profit versus our cost over an 11-month holding period. Our approach to disclosure is to provide to you the information that we would want if our positions were reversed; that is, if you were the investment manager and we were the client, with the caveat that we do not disclose information that would create a competitive disadvantage for the funds unless we are legally required to do so. We did not disclose our investment in Hilton until we disposed of it for this reason.

Hilton is an asset-light, high-margin, fee-based business that primarily franchises and manages hotel properties under more than a dozen hotel brands, including Hilton, Hampton, DoubleTree, and Hilton Garden Inn. Hilton has organically established (i.e., not through acquisition) an industry-leading global pipeline of franchised hotel rooms, which amounts to nearly 40% of its existing room count and should support a high level of capital-light growth for years into the future. Hilton's extensive and growing network of brands and properties offers a significant and self-reinforcing value proposition to both guests and hotel owners, which creates a strong competitive moat around the business. For guests, Hilton provides a consistent and reliable experience in a variety of destinations at different price points and an attractive loyalty program which features enhanced customer service, amenities, and awards. For hotel owners, Hilton provides access to its more than 60 million loyalty program members, scaled marketing programs, reservation and IT systems, and supply chain purchasing power.

Prior to our investment in the summer of 2016, the company announced it would spin off its owned hotel and timeshare businesses, which we believed would highlight the significant value of its remaining franchised and management business. We have long admired Hilton's business and had followed its progress since the IPO at the end of 2013. Despite strong business performance since the IPO, which included 15% unit growth, more than 30% EBITDA growth, and more than 70% free cash flow per share growth, Hilton's share price had increased by a total of only about 10%. We believed that two key investor concerns were weighing on the share price: a potential downturn in the lodging cycle and the potential competitive threat from Airbnb.

To determine the risk of a downturn in the lodging cycle, we undertook an extensive analysis of the previous cycles over the past thirty years. We observed that in the three prior downturns (1991, 2001-2002, and 2008-2009), RevPAR (a measure of same-store sales for the lodging industry) averaged positive annual growth over the five-year period starting just prior to the downturn. While we recognized that it was possible that RevPAR might decline for a period of time, we believed it likely that RevPAR would average positive growth over a three-to-five year time horizon. Moreover, we believed the capital-light unit growth embedded in Hilton's hotel pipeline would more than offset a potential decline in RevPAR and allow for continued annual revenue and EBITDA growth.

To understand the potential competitive risk regarding Airbnb, we reviewed the publicly available data and research on the company and we interviewed dozens of hotel owners, travel agents, lodging industry consultants, and employees of Airbnb and other vacation-rental competitors. We concluded that Hilton's business model was unlikely to face a meaningful threat from Airbnb as the two businesses tend to compete for different customer sets. The vast majority of Hilton's revenue derives from short-stay business travelers who value the consistent experience, amenities, and loyalty program that Hilton's brands provide, whereas the typical Airbnb customer is a leisure traveler who seeks out unique and local accommodations for a lengthier stay. Furthermore, a large portion of Hilton's portfolio is based in suburban markets where there is currently limited Airbnb inventory.

In the beginning of 2017, Hilton spun off its owned hotel and timeshare businesses. After the spin, Hilton's share price began a steady upward ascent as the company continued to report strong business performance and initiated a meaningful share repurchase program. We recently exited our position to allocate capital to other opportunities and achieved a 32% total return on our investment in less than a year. Hilton did not make a more meaningful impact on overall Company performance because its rapid rise at the time of our investment limited the position size to ~5% of the portfolio.

Hilton embodied many of the characteristics that we have identified in other successful investments: a high-quality business with a significant opportunity for capital-light growth, a best-in-class management team, sponsorship from a well-regarded sponsor (Blackstone), and a built-in catalyst, the spinoffs, to unlock shareholder value. While we generally prefer to allocate our capital to activist situations, if we can find a high quality business run by a highly capable management team, and there is appropriate shareholder oversight in the boardroom, we are open to passive investments.

Sincerely,

William A. Ackman

FOOTNOTES TO INVESTMENT MANAGER'S REPORT

1 Net returns include the reinvestment of all dividends, interest, and capital gains and reflect the deduction of, among other things, brokerage commissions, administrative expenses, management fees and historical or accrued performance fees (if any). Performance results provided herein also assume an investor has been invested in the Company since inception 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 2017 is estimated and unaudited.

2 The inception date for the Company is December 31, 2012. The performance data presented on page 4 for the S&P 500 under "Cumulative (Since Inception)" is calculated from December 31, 2012.

3 The S&P 500 ("index") has been selected for purposes of comparing the performance of an investment in the Company 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 PSH is subject. PSH is not restricted to investing in those securities which comprise this index, its performance may or may not correlate to this index and it should not be considered a proxy for this index. The volatility of an index may materially differ from the volatility of PSH's portfolio. 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. © 2016 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.

4 This report reflects the attributions to performance of the portfolio of the Company. Positions with performance attributions of at least 50 basis points are listed above separately, while positions with performance attributions of 50 basis points or less are aggregated.

5 Each position that has been publicly disclosed and was in the Company's portfolio during 2017 is shown separately. Positions that were not publicly disclosed during 2017 are aggregated under "All Other Positions". In the event that a position was held for only a portion of 2017, total shareholder return is calculated only with respect to that period of time. On 1/1/17, the Company owned Hilton Worldwide Holdings Inc. ("Hilton"). On 1/4/17, Hilton spun off two other companies: Park Hotels & Resorts Inc. ("Park Hotels") and Hilton Grand Vacations Inc. ("Grand Vacations"). The Company sold out of Park Hotels and Grand Vacations as of 1/5/17. Total shareholder return for Hilton includes the returns of Park Hotels and Grand Vacations through 7/27/17, the date which the Company disposed of Hilton.

6 Total shareholder return is provided for illustrative purposes only and is not an indication of actual returns to the Company over the periods presented or future returns of the Company. Additionally, it should not be assumed that any of these returns indicate that the investment recommendations or decisions that PSCM makes in the future will be profitable or will generate values equal to those of the companies discussed herein. Total shareholder return takes into account the issuer's dividends, if any.

The attributions (and gross portfolio returns) 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 fee (if any). Inclusion of such fees and expenses would produce lower returns than presented here.

In addition, at times, PSCM 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. All other currency positions are aggregated.

The performance attributions to the gross returns provided herein are for illustrative purposes only. The securities on these lists may not have been held by the Company for the entire period. 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 these lists. It should not be assumed that investments made in the future will be profitable. Past performance is not indicative of future results. Please refer to the net performance figures presented on page 4.

<u>Limitations of Performance Data</u>

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 2017. PSCM 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. PSCM hereby disclaims any duty to provide any updates or changes to the information contained here including, without limitation, the manner or type of any PSCM investment.

<u>Forward-Looking Statements</u>

This report also contains forward-looking statements, which reflect PSCM'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, PSCM 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.