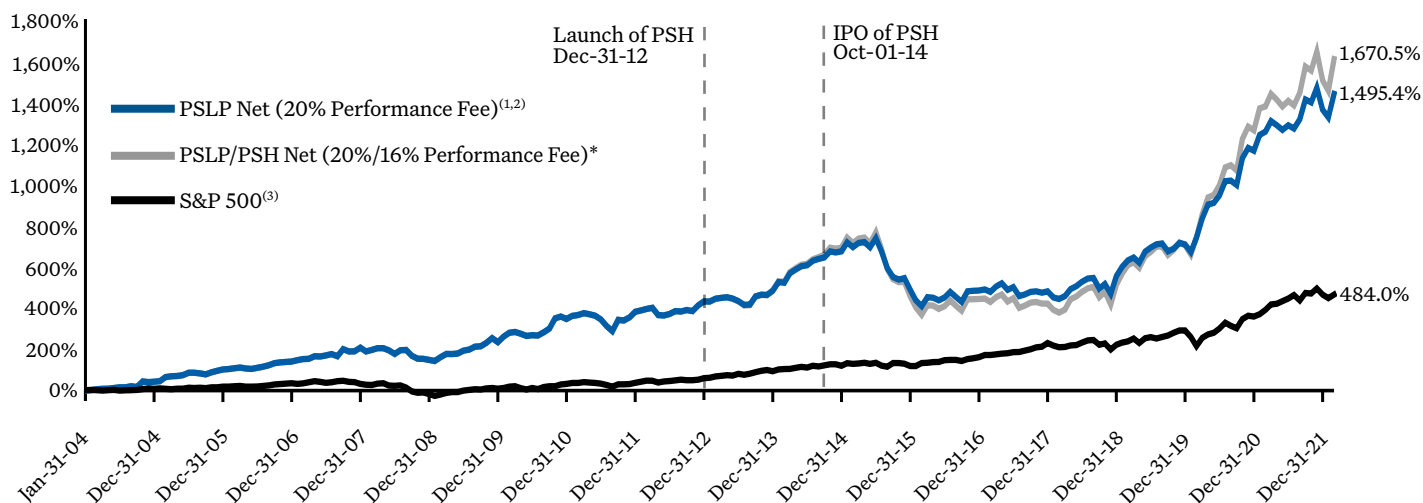




# Company Performance

## Pershing Square Holdings, Ltd. and Pershing Square, L.P. (“PSLP”) NAV Performance vs. the S&P 500



	PSLP/PSH Net Return*		PSLP Net Return <sup>(1,2)</sup>	S&P 500 <sup>(3)</sup>
<b>2004</b>	42.6 %	Pershing Square, L.P.	42.6 %	10.9 %
<b>2005</b>	39.9 %		39.9 %	4.9 %
<b>2006</b>	22.5 %		22.5 %	15.8 %
<b>2007</b>	22.0 %		22.0 %	5.5 %
<b>2008</b>	(13.0)%		(13.0)%	(37.0)%
<b>2009</b>	40.6 %		40.6 %	26.5 %
<b>2010</b>	29.7 %		29.7 %	15.1 %
<b>2011</b>	(1.1)%		(1.1)%	2.1 %
<b>2012</b>	13.3 %		13.3 %	16.0 %
<b>2013</b>	9.6 %		9.7 %	32.4 %
<b>2014</b>	40.4 %		36.9 %	13.7 %
<b>2015</b>	(20.5)%		(16.2)%	1.4 %
<b>2016</b>	(13.5)%	(9.6)%	11.9 %	
<b>2017</b>	(4.0)%	(1.6)%	21.8 %	
<b>2018</b>	(0.7)%	(1.2)%	(4.4)%	
<b>2019</b>	58.1 %	44.1 %	31.5 %	
<b>2020</b>	70.2 %	56.6 %	18.4 %	
<b>2021</b>	26.9 %	22.9 %	28.7 %	
<b>Year-to-date through March 22, 2022</b>	(2.2)%	(1.9)%	(5.0)%	

### January 1, 2004–March 22, 2022<sup>(1,4)</sup>

<b>Cumulative (Since Inception)</b>	1,670.5 %	1,495.4 %	484.0 %
<b>Compound Annual Return</b>	17.1 %	16.4 %	10.2 %

### December 31, 2012–March 22, 2022<sup>(1,4)</sup>

<b>Cumulative (Since PSH Inception)</b>	234.0 %	200.9 %	278.4 %
<b>Compound Annual Return</b>	14.0 %	12.7 %	15.5 %

\* NAV return an investor would have earned if it invested in PSLP at its January 1, 2004 inception and converted to PSH at its launch on December 31, 2012. Also see endnote 1 on page 118. 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 118-121.



# Investment Manager's Report

## LETTER TO SHAREHOLDERS

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

In 2021 Pershing Square Holdings generated strong NAV performance of 26.9%, and a lower total shareholder return (TSR) of 18.6% due to the widening of the discount to NAV at which PSH's shares traded during 2021.<sup>5</sup>

Investors who invested in Pershing Square, L.P. at its inception on January 1, 2004 and transferred their investment to PSH at its inception on December 31, 2012 ("Day One Investors") have grown their equity investment at a 17.1% compounded annual rate over the last 18 years, compared with a 10.2% return had one invested in the S&P 500 during the same period.<sup>6</sup> With the magic of compounding, our 17.1% compound annual NAV return translates into a cumulative total NAV return since inception of 1,670% versus 484% for the S&P 500 over the same period. In other words, Day One Investors have multiplied their equity investment by 18 times versus the six times multiple they would have achieved had they invested in a zero-fee S&P 500 index fund.

Using PSH's stock price return rather than per-share NAV performance, Day One Investors have earned a 14.5% compounded return, a 12 times multiple of their original investment.<sup>7</sup> This lower return reflects the 33.9% discount to NAV at which PSH's stock currently trades. Our strong preference is for PSH's shares to trade at or around intrinsic value for which we believe our NAV per share is a conservative estimate. With continued strong performance, we expect that PSH's discount to NAV will narrow, and its NAV and market value returns will converge.

### The Last Four Years

The last four years have been an extraordinary period of performance for PSH. NAV per share has increased from \$17.41 to \$57.30 from December 31, 2017 to December 31, 2021, a compound annual return of 35.4% and a cumulative return of 236% versus 17.6% and 91.5% for the S&P 500 over the same period. In light of the strong turnaround in PSH's performance, we thought it would be useful to examine the steps we took to achieve this outcome as they will provide useful lessons for the years to come.

In 2017, Pershing Square was in the midst of resolving the overhang from two bad investments that contributed to a several-year period of underperformance, which led us to what is best described as a moment of reflection for Pershing Square. Our self-examination inspired a turnaround strategy comprised of four pillars: (1) exit the problematic investments; (2) restructure Pershing Square to a smaller investment-centric organization with future asset growth driven by investment results; (3) stabilize our capital base by acquiring a large stake in PSH and halting marketing and capital raising for the private funds; and (4) reinforce the implementation of our core investment principles which have generated the substantial majority of our performance since inception.

### Exit the Problematic Investments

We sold Valeant and closed out our Herbalife short despite our belief that substantial profits would likely have been realized from their then trading prices. While retaining both investments would have generated substantial gains,<sup>a</sup> we exited because we believed that the capital could better be deployed in other opportunities, particularly when one considered the

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<sup>a</sup> As of March 22, 2022, Valeant, now Bausch Health, has increased by 118.6% to \$24.05 from our final exit price of \$11.00, and our short position in Herbalife has declined since our exit by 30.6%, or from \$48.95 (adjusted for its 2 to 1 stock split) to \$33.98.



opportunity cost of our time. The aphorism that you “don’t need to make it back the way you lost it” has always resonated with us. Fortunately, we were amply rewarded from the redeployment of this capital as profits on the new investments were substantially greater than the gains we would have achieved from holding the troubled ones.

### **Restructure Pershing Square to a Smaller Investment-Centric Organization**

When my former partner and I launched Gotham Partners, my previous firm, in 1992, my ambition was not to build a large global asset management firm. Rather, my immodest announced goal (exhibiting the perils of youthful exuberance) was “to generate one of the best long-term investment records ever.” Our goal was the same when we launched Pershing Square in 2004. We were off to a good start with a 21% compound annual return for the first nearly 12 years.<sup>8</sup> By 2015, these strong returns coupled with early capital inflows grew Pershing Square’s equity under management to about \$20 billion.<sup>9</sup> About 60% of these assets were in our two private funds – Pershing Square, L.P. and Pershing Square International, Ltd. – from which capital could be redeemed each quarter, a redemption “half-life” of about one year, with the balance of our assets in PSH.

In light of the impermanent nature of our private fund capital and the resulting constant need to retain and recruit new investors to maintain stable capital, I had inadvertently become the “Chief Marketing Officer” of Pershing Square (not to take away from our investor relations team’s excellent work) as investors who had committed large amounts of capital wished to meet with the CEO and other members of the investment team at least once a year. By 2015 and at \$20 billion of equity under management, these once-a-year meetings with a hundred or more investors ended up consuming or conflicting with much of our productive time, which interfered with the large blocks of time needed to focus on investing. Even a five-minute “check in” in the middle of the workday can materially disrupt the “flow” essential to the research and investment process.

To fix this problem, we informed our investors in January 2018 that members of the investment team would no longer meet with investors (other than Ben Hakim who took on this responsibility). Investors would continue to be kept well informed by our investor relations team and our conference calls, letters, presentations, and Annual Investor Meeting.

We understood that as a result of this change in our investor relations policy some of our institutional investors might be required to, or might choose to, redeem. Even considering the cost of having to manage through a transition period with substantial capital outflows, we strongly believed that this change would be in the long-term best interests of investors who chose to stay with us. It was a good decision. With this new approach to investor relations, we have been able to spend effectively all of our business time on our investments, generating the best performance in our history. We attribute much of our success over the last four years to our improved ability to focus.

### **Stabilize Our Capital Base and the Pershing Square Team**

During 2018, we substantially enhanced the stability of our capital base by acquiring a larger ownership stake in PSH, increasing our alignment with other shareholders. As a long-term major owner, we could now invest without regard to short-term considerations, an enormous competitive advantage as nearly all other investment managers are beholden to short-term investor capital flows.



The business of raising capital is one which requires time-consuming support from all aspects of the firm. Our decision to exit the private fund capital raising business allowed us to operate extremely effectively with a much smaller team. In a small organization, our other-than-investing managerial responsibilities are much more limited. A smaller Pershing Square is both an extremely effective and attractive place to work, making it easier for us to retain talent, minimize turnover, and execute a turnaround.

Withdrawals of capital from our private funds and our large investment in PSH stock transformed our capital base to one that is substantially more permanent and more closely aligned with our investors. Today, nearly 90% of our assets are held by PSH<sup>10</sup> of which Pershing Square employees and affiliates are the largest owners with more than 25% of shares outstanding, a \$2.8 billion of equity investment. Employees and our affiliates are also the largest investors in our two private funds representing approximately 44% of their capital or \$913 million for a total systemwide equity investment from employees and affiliates of 28% of capital or \$3.7 billion.<sup>11</sup> Pershing Square is one of the few investment managers in the world with such a large commitment of capital from the individuals who are making the investment decisions.

Our permanent capital base has allowed us to be highly opportunistic during periods of market stress – think March 2020 and the first few months of this year. It has also allowed us to win a recent competitive process where a seller of a high-quality business sought an anchor investor who has: (1) the ability to be a long-term and potentially permanent owner, (2) significant skin in the game (not just other people’s money), and (3) a strong track record as a steward for other shareholders.

We believe that we were chosen by Vivendi to be a 10% owner of Universal Music Group largely for the above reasons from among a highly competitive field comprised of the largest private equity and other investors who needed an “exit strategy” in order to make the investment. We do not need an exit strategy. Rather, our strong preference is to find businesses where we believe that an exit will not be required, of which UMG is a good and important example.

Capital is generally, but not always, a commodity. Our differentiated capital base and growing reputational equity enabled us to win an investment mandate where price was an important but secondary consideration. With our increasing scale, large insider investment, and stable capital base, we believe that we will continue to identify other negotiated transactions where these unique attributes give us important competitive advantages.

### **Reinforce the Core Principles**

Our renewed commitment to the core investment principles that have driven the substantial majority of our returns over time was the critical fourth pillar in our turnaround. The physical manifestation of the fourth pillar is a ‘stone’ tablet that sits on each of our desks that reminds us of our commitment to invest in the extremely durable growth companies that meet our core principles for business quality, simplicity, predictability, and free-cash-flow generation. We have been greatly rewarded for doing so.

### **Hedging and the Benefits of Asymmetry**

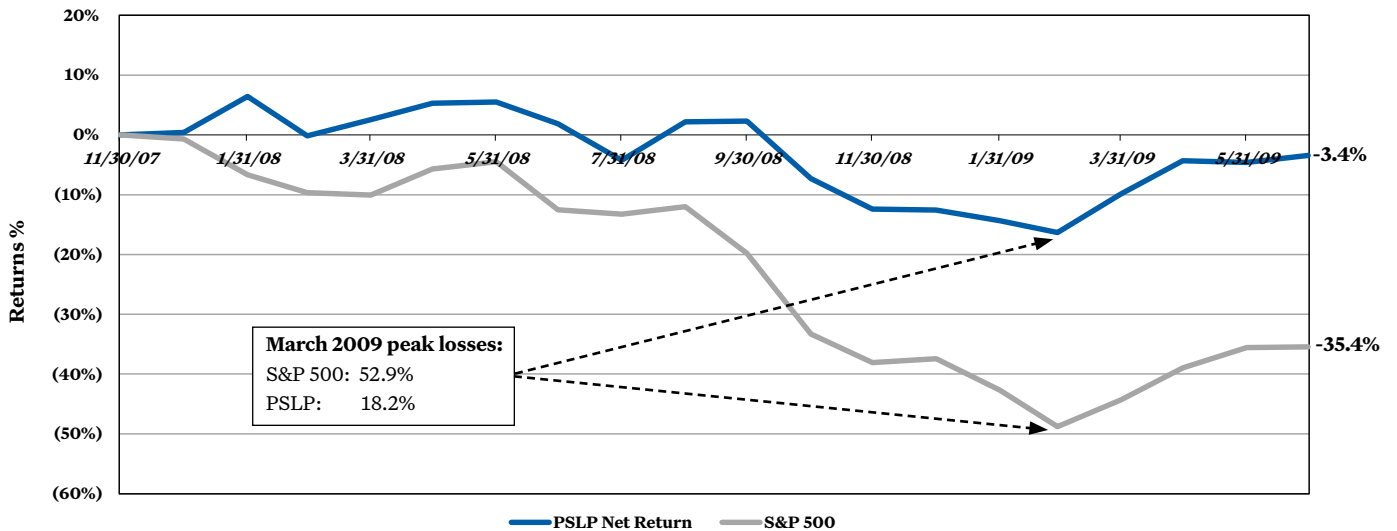
While the four pillars help to explain important contributors to the last four years and our approach to generating strong results in the future, they are not the only drivers of our results. Since our inception, asymmetric hedging strategies have



been important contributors to performance. Below we compare our performance during periods of extreme market volatility since our inception during: the financial crisis, the pandemic, and the first few months of 2022 – that greatly benefitted from our approach to hedging:

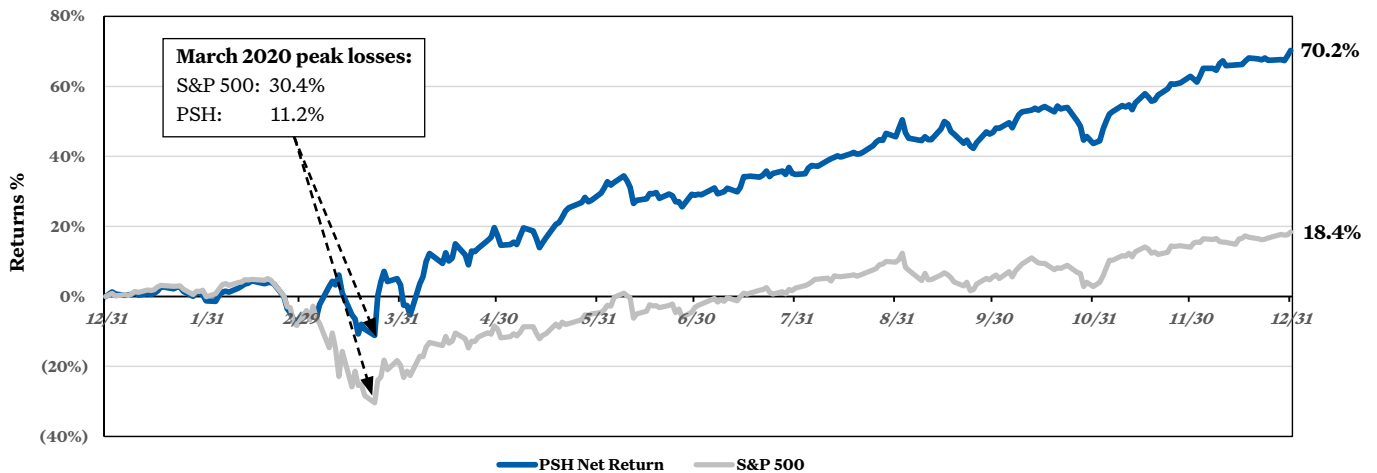
### Global Financial Crisis

From December 1, 2007 to June 30, 2009, PSLP outperformed the S&P 500 by 3,200 basis points



### COVID-19 Pandemic

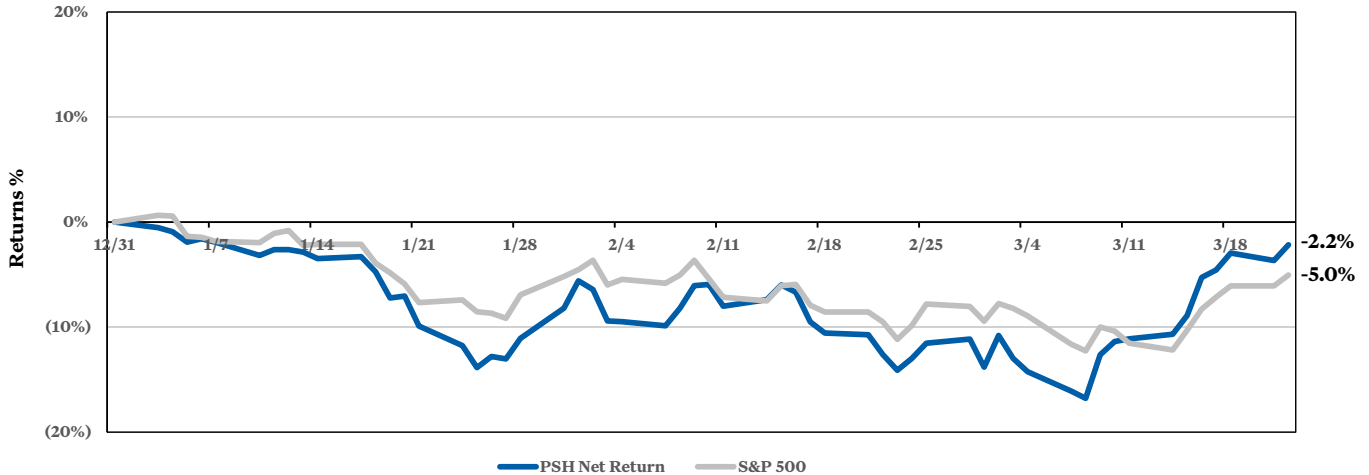
From January 1, 2020 to December 31, 2020, PSH outperformed the S&P 500 by 5,180 basis points





### **Russia/Ukraine War and Record Inflation**

From January 1, 2022 to March 22, 2022, PSH outperformed the S&P 500 by 280 basis points



We do not use hedges to protect our mark-to-market performance from short-term downward volatility. We do not invest for the short term; therefore, we do not believe it makes sense to hedge for potential short-term declines in the stock market. We do, however, continually seek investments that can multiply in value when extraordinary negative macro or market events may occur. We implement this strategy so we are well positioned to acquire more of our existing holdings and/or potential new investments which may become available at attractive prices during periods of market disruption. We structure these hedges using instruments, typically options or the purchase of credit default swaps, that offer asymmetric payoffs and consume only a modest amount of our capital if the potential market disruption does not occur.

We think this approach can be best understood by analogy to over insuring your home in advance of an expected storm where insurance is purchased with a sufficiently large deductible such that the cost is minimal and the potential payoff is large relative to the premiums paid. The downside to this approach is that you may buy insurance which does not generate a return because your ability to predict future weather conditions is not perfect. So long as you only buy insurance episodically and opportunistically – that is when the weather looks to be very bad and the premiums are modest – the potential for opportunism can greatly outweigh the cost of the premiums.

We own businesses that we believe will survive the proverbial great flood. When macro considerations warrant the purchase of protection and the price of the insurance is favorable, we over insure. When the storm hits, we cash in the policies and buy more of what we already own and/or new companies that are available at a big discount. We have been well rewarded for doing so.



## The First Few Months of 2022

Year to date, NAV per share has declined by 215 basis points. This performance reflects both positive and negative contributors. Year-to-date hedging gains have generated 727 basis points of positive returns, whereas our portfolio companies have generated 883 basis points of negative returns with the balance of 59 basis points reflecting accrued bond interest, management fees and other costs.<sup>12</sup> We believe that our companies' stock price declines are driven principally by the overall stock market disruption due to uncertainty about Federal Reserve policy and its impact on equity markets, and the recent war in Ukraine.

Volatility during the first few months of the year has provided opportunities for Pershing Square. In January, we exited some of our interest rate swaptions that we purchased in December 2020 and in 2021 ("the 2020/2021 swaptions") that were approaching expiration, generating \$1.25 billion for PSH and the other two Pershing Square funds ("the Funds"), the proceeds of which were principally invested in Netflix, a business that we have admired and previously researched, but never owned. Recently, we sold our remaining 2020/2021 swaptions for \$195 million generating cumulative total proceeds of \$1.45 billion on the 2020/2021 swaptions from the Funds' original investment of \$188 million.

In light of our continuing concerns about the impact of rising rates on equity markets and the market's underestimation of this risk, we replaced a substantial portion of the rate hedges that we sold with new interest rate swaptions ("the 2022 swaptions") with strike prices that were initially somewhat out of the money and with a longer term to expiration. The 2022 swaptions have already more than tripled in value from our original cost. Assuming the 2022 swaptions are sold at their current market value, the total proceeds from all of our swaption hedges would be in excess of \$2.1 billion.

## The War, Inflation, Risk, Uncertainty, and Why We Remain Fully Invested

The war in Ukraine is a tragedy. Watching innocent people die due to the political and geopolitical objectives of one man is something one would hope would have never reoccurred. Ukraine is putting up a fierce fight and much of the Western world is helping with aggressive sanctions, military equipment and funding, but we need to do more. Russia's horrific actions must be made to be extraordinarily expensive and punishing for its military and its economy so that we deter and hopefully eliminate such aggression, destruction, and loss of life in the future.

The economic implications of the war are significant in amplifying inflation in energy, agriculture, and other goods and services, and tempering the risk appetites of investors and corporations. The prospects of high inflation, deteriorating growth, and the potential for a U.S. and global recession have increased significantly. Russia has become uninvestable. China is not far behind due to their crackdown on corporations and high-profile CEOs, and their tacit approval of Russia's actions. U.S. companies were already in the process of reshoring and near-shoring their supply chains, which will accelerate due to increasing geopolitical uncertainty. De-globalization is inherently inflationary. Risk premiums should also continue to rise.

Why then, you might ask, do we remain fully invested? For two principal reasons: first, we believe that the businesses we own have substantial pricing power that will enable them to cover the costs of inflation and are otherwise sufficiently robust and durable to continue to grow and withstand the test of time; and second, we believe that our hedges will likely generate substantial liquidity that would enable us to take advantage of opportunities in the event of a substantial market decline. We believe that hedging is a better alternative to keeping funds in cash while one is waiting for opportunities, particularly because high rates of inflation cause the purchasing power of cash to decline rapidly.



The industries and businesses in which we have invested are highly attractive and well positioned to withstand negative externalities. About 30% of our equity portfolio is invested in music and video streaming (UMG and Netflix); 26% in restaurants and restaurant franchising (Chipotle, Restaurant Brands and Domino's); 15% in a home improvement retailer (Lowe's); 10% in real estate in states with substantial in-migration (Howard Hughes) and in residential mortgages (Fannie Mae and Freddie Mac), 10% in hotel franchising (Hilton), and 8% in a railroad (Canadian Pacific).<sup>13</sup> We expect that each of these companies will grow their revenues and profitability over the long term, regardless of recent events and the various other challenges that the world will face over the short, intermediate, and long-term.

While effectively all businesses are exposed to the global economy, we have chosen to invest close to home. Our portfolio is North American-centric with most to all of our companies' profits generated in North America. While the U.S. has its share of problems including a highly litigious business environment, a complex regulatory regime, and political disharmony and divisiveness, we believe these factors are substantially outweighed by a legal regime where the rule of law is generally respected (more so than in most other places in the world), limited corruption, a world class military and defense, and a corporate and capital markets environment where capitalism can flourish. We believe that these attractive attributes will increase in importance to investors in light of recent events. Much the same way that the world is deglobalizing, deglobalization appears to be coming to the capital markets.

We expect our portfolio companies to continue to compound their intrinsic values at even higher rates than before due to their currently reduced valuations. We believe that all of our portfolio companies will generate long-term durable growth due to their dominant market positions, substantial free cash flow generation, high returns on capital, pricing power, and strong balance sheets. Furthermore, most of our companies use their free cash flow to repurchase their own shares so our portfolio companies and their shareholders are the long-term beneficiaries of their recently reduced stock prices. While most investment managers prefer to report consistent growing returns to their investors, we prefer to have intermittent periods of downward volatility as they create opportunities to plant the seeds for greater long-term outperformance.

### **Pershing Square Tontine Holdings, Ltd. ("PSTH")**

PSTH's failed business combination with Universal Music Group was a significant disappointment in 2021. We worked for nine months on behalf of PSTH to close the UMG transaction, but were unable to resolve regulatory issues in a timely fashion (and determined that we could not do so before the transaction deadline) in light of the somewhat atypical structure of the business combination which was designed to accommodate UMG's controlling shareholder's requirements. Our failure to complete the transaction was unexpected as our (and our counsel's and that of our counterparty's) understanding of the SPAC business combination rules, as well as that of the NYSE whose business combination rules applied, appeared to permit the transaction structure that we had proposed.

Fortunately, PSH and the other Pershing Square core funds, along with a co-investment fund we raised for this investment, were able to take over the transaction and to close on time and on the original terms. Doing so preserved Pershing Square's track record for closing deals and eliminated potential litigation risk from a potentially failed transaction. The assignment also restored PSTH to pursue a future transaction, albeit with somewhat less time remaining to do so.

During the first quarter of 2022, UMG's share price made a roundtrip back to our purchase price in Euros, and an even lower price in U.S. dollar terms. As a result, PSTH investors who missed the opportunity to acquire UMG through PSTH have had the opportunity to purchase UMG at the same or a similar price to that we paid, which helps to mitigate the opportunity cost of the failure of the PSTH/UMG business combination for PSTH shareholders.





We are very fortunate to have UMG as our largest position. It is one of the highest quality businesses we own and it trades at one of the largest discounts to intrinsic value in our portfolio.

We are continuing to pursue potential business opportunities for PSTH. Recent market volatility and a difficult IPO environment make PSTH's \$1 billion to \$3 billion of committed capital from Pershing Square and its unique Tontine warrant structure, designed to minimize the risk of shareholder redemptions, an even more attractive counterparty for a merger.

PSTH is open for business. We of course continue to welcome inbound ideas from investment bankers, advisors and others. We have until July 24, 2022 to sign a letter of intent for a transaction, and six months thereafter to close unless otherwise extended by shareholders.

### **Pershing Square SPARC Holdings, Ltd. ("SPARC")**

We have made considerable progress toward the launch of Pershing Square SPARC Holdings, Ltd., although there can be no certainty the required NYSE rule will be adopted and other required approvals will be obtained. To review, SPARC is a newly proposed acquisition company that is structured to address certain undesirable features of SPACs that we were unable to address even with the investor-friendly SPAC innovations of PSTH's structure.

On March 1, 2022, the NYSE proposed an amendment to its initial subscription warrant listing rule that would allow SPARC warrants ("SPARs" or generically "subscription warrants") to trade on the NYSE. The public comment period for the new rule will end today, March 29<sup>th</sup>. We strongly encourage interested parties to publish a comment today as all comments are considered carefully by the SEC. (To publish a comment, click [here](#) and reference SR-NYSE-2021-45). The SEC will either approve or disapprove of the new rule no later than May 8th.

If the subscription warrant listing rule is approved and SPARC's registration statement is declared effective by the SEC, we intend to distribute SPARs to PSTH shareholders and warrant holders later this year. The SPARs are intended to have a maximum 10-year term and a minimum strike price of \$10.00 per share, subject to upward adjustment, which will enable us to tailor the amount of capital needed for a potential merger transaction. The SPARs will only become exercisable 20 business days after SPARC has entered into a definitive agreement for a transaction and the registration statement for that transaction (including comprehensive disclosure about the acquired business) has been declared effective by the SEC.

As the SPARs will be distributed free to PSTH holders, SPARC will have no underwriting fees nor will it have customary SPAC shareholder warrants outstanding which are typically issued at the time of a SPAC IPO as an inducement for investors to buy a "unit" in the SPAC's initial public offering. With no shareholder warrants or underwriting fees, SPARC will have an extremely simple and efficient capital structure with only common stock outstanding, other than 20% out-of-the-money Sponsor and Director Warrants on 5.21% of the post-transaction merged company. We expect that SPARC's simple capital structure, *de minimis* frictional costs, and unlimited scalability, backed by a large capital commitment from the Pershing Square Funds on the same terms as the SPAR holders will make SPARC an ideal vehicle for private companies to go public, a much more attractive alternative than going public in a conventional IPO.



The SPAC market is in total disarray for reasons largely of its own making. As we have often stated, we believe that incentives drive all human behavior, particularly on Wall Street. The incentive structure of the current-day SPAC (as distinguished from PSTH) motivated sponsors to complete transactions in many cases regardless of the outcome for their common stockholders. In light of typical SPACs' highly dilutive structures with founder stock, large underwriting fees, and dilutive shareholder warrants outstanding, it is the rare SPAC transaction that has been able to create even short-term value for shareholders. We believe the vastly superior structure and economic terms of the SPARC structure will, over time, enable us to own large stakes in high quality, newly public businesses that meet our investment criteria. No assurance can be given that SPARC will ultimately be effectuated on the terms outlined above or at all.<sup>14</sup>

### Pershing Square 3.0

When we consider our history of corporate engagement, we have previously described two Pershing Square eras: (1) the initial period from our inception as Pershing Square 1.0 or “transactional activism,” where we invested in undervalued companies in which we were able to create substantial shareholder value by catalyzing corporate events like spinoffs, strategic asset or corporate transactions, and/or changes in tax or corporate structure, and (2) Pershing Square 2.0, beginning with our investment in General Growth Properties, where we joined the board of directors and helped to create shareholder value from the perspective and influence of an insider.

In the last year or so, some of our investors have asked whether our approach has changed again as they perceive us to be a “quieter” investor. They note that it has been about five years since our last proxy contest, and we have had only positive, constructive engagements with our portfolio companies in as many years.

To set the record straight, we have always sought to have positive, constructive engagements with our portfolio companies and their boards and management teams. Fortunately, we have largely succeeded, other than in the initial stages of a handful of proxy contests over the years. Unfortunately, our quieter constructive engagements which characterize the substantial majority of our investments are less widely known because quiet, constructive engagements do not generate media attention, certainly when compared with proxy contests.

We have also on a few rare occasions engaged in the “noisiest” form of activism, activist short selling, although this has been limited to two high-profile activist short engagements. Despite our limited participation in this investment strategy, it has generated enormous media attention for Pershing Square. In addition to massive amounts of media hits, our two short activist investments managed to inspire a book and a movie. Fortunately for all of us, and as importantly for our reputation as a supportive constructive owner, we have permanently retired from this line of work.

In our nineteenth year since inception, we have had the opportunity to get to know many boards and management teams, and we have built a reputation as a constructive, long-term, and helpful owner. The world of large capitalization public companies is small, and our reputation as a thoughtful investor has therefore become well known among CEOs, boards, and others who matter. The result is that all of our interactions with companies over the last five years have been cordial, constructive, and productive. We intend to keep it that way as it makes our job easier and more fun, and our quality of life better. So, if it is helpful to call this quieter approach Pershing Square 3.0, let it hereby be so anointed.



## The Team

I am extremely fortunate to come to work every day alongside an extremely talented group of colleagues. Our look-after-one-another, family-oriented culture has made work fun, productive, and profitable for the team and our investors. We are unusual in our industry for the modest size of our organization – at current count 42, beginning with our smallest team, the two-person reception desk to our largest, our eight-person investment team – particularly when compared with the amount of assets we manage.

Our small size is by no means an effort to keep costs down. We are fortunate in having an investment strategy – concentrated and long-term, and a business model – investment-centric rather than asset-gathering – that enables relatively few to accomplish so much. Small organizations are often more productive, effective, and easier to manage than large ones.

We are also beneficiaries of the long tenure of our team members. Pershing Square is an extremely interesting and attractive place to work. We have also been through many challenges and successes together from which we have learned a lot. Our experience and our culture have proven to be important sources of our competitive advantage and sustainability in an industry with a relatively short half-life, which is why we are extremely circumspect when adding new team members. We know that we will experience many challenges over the next hopefully many decades, and we are well prepared for what comes next.

We are living in extraordinary times. As the steward for a portion, and for some of you a large portion of your investment assets, we are grateful for your commitment to Pershing Square. Our shareholders include thousands of individual investors and many institutions for whom the successful investment of their assets can create opportunities as well as mitigate other risks and costs that they bear. We take this responsibility extremely seriously. We are pleased with our long-term record and our performance in recent years, but we are not resting on our laurels. We have plenty of work to do to achieve our ambitious long-term goals, and we remain vigilant, focused, and committed to maximizing the outcome for our shareholders.

Sincerely,

William A. Ackman



## 2021 PORTFOLIO UPDATE

### Performance Attribution

Below are the contributors and detractors to gross performance of the portfolio of the Company for 2021 and year-to-date 2022<sup>(15)</sup>.

January 1, 2021 – December 31, 2021		January 1, 2022 – March 22, 2022	
Lowe's Companies Inc.	10.8 %	Interest Rate Swaptions	7.3 %
Universal Music Group N.V.	8.7 %	Canadian Pacific Railway Limited	1.1 %
Interest Rate Swaptions	7.7 %	Bond Interest Expense	(0.2)%
Hilton Worldwide Holdings Inc.	5.7 %	Chipotle Mexican Grill, Inc.	(1.6)%
Domino's Pizza Inc.	4.2 %	Lowe's Companies Inc.	(2.3)%
Chipotle Mexican Grill, Inc.	3.9 %	Universal Music Group N.V.	(2.4)%
Agilent Technologies Inc.	3.8 %	Domino's Pizza Inc.	(2.6)%
The Howard Hughes Corporation	2.3 %	All Other Positions and Other Income/Expense	(1.1)%
Index CDS	(1.1)%		
Bond Interest Expense	(1.3)%		
Federal Home Loan Mortgage Corporation	(1.8)%		
Federal National Mortgage Association	(2.2)%		
Pershing Square Tontine Holdings, Ltd.	(6.5)%		
All Other Positions and Other Income/Expense	(0.3)%		
<b>Net Contributors and Detractors</b>	<b>33.9 %</b>	<b>Net Contributors and Detractors</b>	<b>(1.8)%</b>

Contributors or detractors to performance of 50 basis points or more are listed above separately, while contributors or detractors to performance of less than 50 basis points are aggregated, except for bond interest expense. Bond interest expense includes a one-time bond extinguishment expense of \$12.1M in connection with the partial cancellation of the 2022 Bonds on October 4, 2021. See Note 18 in the Notes to the Financial Statements for additional detail. 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 118-121.

### New Positions:

#### Netflix ("NFLX")

We have long admired Netflix and had initially researched and analyzed the company as part of our investment due diligence on UMG. We then updated and completed our work in January when the stock price declined due to disappointing subscriber guidance. Much like UMG, we believe Netflix is well positioned as a leading beneficiary of the long-term secular growth in streaming, a high-quality business overseen by a world-class management team. Netflix established subscription video streaming when it launched its service in the U.S in 2007. Over the subsequent fifteen years, it has achieved global scale with 222 million paid subscribers today in more than 190 countries.



Despite its large scale, Netflix is still in the early stages of capitalizing on the decade-long secular growth in streaming video and corresponding decline in linear Pay TV. Current subscribers amount to less than a quarter of today's estimated total addressable market of 800 million to 900 million households that have either fixed broadband access or subscribe to Pay TV (excluding China).

Netflix offers consumers on-demand, commercial-free, binge-able content with ubiquitous accessibility at a price point that is approximately 80% less expensive than the average Pay TV package in the U.S. A Netflix subscription is one of the lowest cost forms of high value entertainment, with cost per hour of engagement of about 30 cents. The company's vastly superior value proposition relative to Pay TV and other forms of entertainment should drive substantial pricing power and meaningfully increase its penetration across its addressable market over time. We expect the company's addressable market to grow materially with global improvements in broadband connectivity and the continuous proliferation in the number of connected devices (SmartTVs, tablets, and smartphones).

Netflix is well positioned as the dominant market leader with several advantages relative to existing legacy media incumbents and large-capitalization technology entrants. The company has a diverse library of "content for everyone" that is replenished at a much faster rate than competitors. It releases 150 to 200 original content episodes per month, more than the volume released by Prime Video, Hulu, Disney+ and HBO Max combined. Netflix's industry-leading subscriber base has enabled the company to establish a very profitable business while spending more on original content than competitors.

Netflix's competitors are not currently profitable on a standalone basis and may struggle to spend ever increasing amounts on content unless they achieve significant future subscriber growth. Legacy media incumbents rely on existing profit pools from Pay TV to fund content spend today, but these sources of funding are quickly eroding due to Pay TV cord-cutting. Large-capitalization technology competitors such as Amazon and Apple have deployed cash flows from their significantly larger core businesses to fund video content, but we believe they will not spend unlimited sums to advance video streaming businesses that remain unprofitable and are ancillary to their core businesses.

As Pay TV cord cutting accelerates in mature markets, we believe there will be consumer appetite to subscribe for multiple streaming services over time. In the U.S., we estimate that wallet share released from declining linear Pay TV subscriptions, which are priced at approximately \$80 per month, can easily sustain a streaming bundle of three to five streaming services per household, which are typically each priced around \$10 to \$15 per month and offer a significantly better customer experience.

Netflix has the lowest churn rate by a wide margin amongst streaming services, highlighting its core position as the anchor, utility-like service of any "streaming bundle." Netflix's retention in the U.S., its most competitive market, has remained consistently stable at industry-highest levels despite the launch of several new competitors. International markets are earlier stage growth markets where Netflix has an even more formidable first-mover advantage and significant competitive position in local language content. Only Netflix has the unique and proven track record of elevating regional productions like *Squid Game*, *Casa de Papel* and *Lupin* into the global cultural zeitgeist.

As Netflix's business has achieved scale, its operating profit margins have increased from 4% in 2016 to 21% in 2021. Over the last five years, Netflix has held content spend per subscriber constant despite growing overall content spend by 23% per annum. At the same time, the company has increased price by 7% annually, resulting in dramatically improved subscriber unit economics. From the customer's perspective, Netflix's value proposition has become better each year as the growth in the volume of new high quality content has comfortably exceeded price increases. We believe that the combination of continued subscriber growth and pricing power will allow the company to leverage its growing content spend over an even larger future subscriber base, which will drive substantial future margin expansion and provide a better value proposition to its subscribers each year.



The opportunity to acquire Netflix at an attractive valuation emerged as investor concerns over management's short-term guidance, exacerbated by recent market volatility, led to a substantial decline in the company's share price. Despite a 47% increase in revenue, approximately 800 basis points of margin expansion and a vastly improved free cash flow profile over the last two years, as of March 22, 2022, Netflix's share price is down approximately 45% from recent highs and is trading below its February 2020, pre-pandemic share price.

Although we expect some near-term variability in the company's quarterly growth and profitability, we are confident in Netflix's long-term outlook. Over the next decade, we estimate the company can achieve double-digit annual revenue growth, significantly expand its operating profit margins, and grow its earnings per share by more than 20% per year. Moreover, the company is now cash flow positive which over time will enable capital return through share buybacks in the coming years. We believe Netflix's current valuation represents a meaningful discount to intrinsic value for a business of its quality and exceptional growth potential.

#### *Canadian Pacific Railway ("CP")*

Beginning in late 2021, we reinitiated an investment in Canadian Pacific. CP has been the best performing railroad in North America over the last decade due to the exceptional leadership of CEO Keith Creel and his predecessor, Hunter Harrison. We first invested in CP in 2011 and recruited industry veteran Hunter Harrison to lead a turnaround of the company. Under Hunter and Keith's leadership, CP has more than doubled its operating margins from 19% in 2011 to 42% in 2021 and become a leader in profitability among North American Class I railroads.

Canadian Pacific has been the fastest growing North American Class I railroad with average organic revenue growth of 6% over the last five years. In December, CP closed the acquisition of Kansas City Southern ("KCS"), which we believe will be a transformational and value-creating transaction. The acquisition of KCS positions CP to be the only North American railroad with a direct route from Canada to Mexico, and will result in significant revenue and cost synergies. KCS's rail network is at the center of the North American rail system, linking Mexico to major markets in the Midwest and Southeast regions of the United States. The CP-KCS combination will connect six of the seven largest metro regions in North America in one direct route and offer unparalleled speed and service for customers. CP currently owns KCS through a voting trust, which entitles CP to full economic ownership of the company, but does not permit CP to take operational control of the railroad until it receives regulatory approval of its pending merger application. We expect this approval to occur by the end of the year.

We believe CP is an attractive business as it operates in an oligopolistic industry where the barriers to entry are high due to considerable capital requirements, regulation, and network effects. The company provides a mission-critical freight transportation service which is often the cheapest or only viable method for transporting heavy freight over long distances, allowing for significant pricing power. Moreover, we believe freight volumes for the industry are poised for strong growth as rail freight transportation takes share from trucking. Rail currently accounts for less than 10% of overall freight transportation dollars in the United States with trucking representing more than 60%.

Rail transportation is both cheaper over longer distances than trucking, and significantly more environmentally friendly as it reduces greenhouse gas emissions by up to 75% compared to trucking. As customers increasingly look to reduce their carbon footprints and the railroads continue to enhance their customer service levels, we expect the railroad industry's share of the freight transportation market to meaningfully improve from current levels. Furthermore, the current geopolitical environment has increased the probability of significant investment in North American onshoring and energy production, which would further strengthen CP's volume growth over time.



Since we exited our original investment in CP in 2016, we have continued to closely follow the company and have admired the company's industry-leading execution and operational excellence. We believe the acquisition of KCS will be transformational for CP's rail network, and expect CP's leadership team to make significant operational improvements at KCS.

Despite our expectation that CP's best-in-class recent performance will continue and the company's future growth profile will be significantly enhanced by the revenue and cost synergies associated with the KCS combination, CP's shares have recently traded at a discounted valuation relative to history and its peers. We believe that the successful consummation and integration of the KCS acquisition will lead to attractive future investment returns relative to our purchase price as CP generates robust free cash flow per share growth over the medium-term, and which should cause it to receive a higher valuation that is more consistent with historical and peer levels.

### **Portfolio Update:**

#### *Universal Music Group ("UMG")*

Universal Music Group is the world's leading music entertainment company and a high-quality, capital-light business that can be thought of as a rapidly growing royalty on the greater global consumption and monetization of music. Together with affiliate funds, we acquired 10% of the company last summer at a negotiated equity value of €33 billion, shortly before its distribution from Vivendi.

We believe that many investors still underappreciate the future long-term duration of growth in the music industry. Music is still in the early innings of a decades-long runway of growth, as it remains under-monetized relative to history and when compared to other forms of media. Due to increasing streaming penetration combined with the development of new services, platforms, and business models, we believe UMG can grow revenues at an annual rate approaching double-digits for more than a decade. Streaming is faster-growing, more predictable, minimally capital intensive, and more profitable than the physical or download recorded music business. High absolute levels of revenue growth coupled with UMG's fixed-cost base should allow UMG to significantly expand its operating margins over time, producing attractive compound earnings growth for the foreseeable future.

In recent months, investors have become concerned about industrywide competition for catalog assets and its impact on returns on capital. We believe these concerns are largely misplaced. With its best-in-class global team, access to unparalleled data, and unique ability to increase monetization, we believe UMG is an advantaged buyer and ideal steward for iconic catalogs. Importantly, UMG does not need to acquire catalogs in order to continue its strong growth trajectory and achieve the medium-term guidance outlined at its Capital Markets Day last year. The company recently reiterated that these acquisitions are additive to its existing medium-term growth algorithm, and that UMG will only acquire iconic catalogs where it can improve monetization, and then only at a price where the returns exceed the company's cost of capital.

Going forward, to further assist investors in evaluating the business, the company recently committed to providing more detailed revenue disclosure. We believe that expanded disclosure, coupled with further opportunities for investors to hear from management, will help investors better understand and appreciate UMG's advantaged position in a highly attractive and growing ecosystem. Over time, we also expect UMG to further optimize its capital structure and capital allocation policies.

We believe UMG's current valuation represents a significant discount to intrinsic value as it fails to reflect both the company's attractive business characteristics and long runway for sustained and robust earnings growth.



### *Lowe's ("LOW")*

Lowe's is a high-quality business with significant long-term earnings growth potential. We initiated our investment in the company in April 2018 based on our assessment that the hiring of a new high-caliber management team who would undertake a business transformation could dramatically improve the business and close the performance gap to its closest competitor, Home Depot. Marvin Ellison became CEO in July 2018, and since then, Marvin and his team have executed a multi-year transformation plan to bolster Lowe's retail fundamentals, reduce structural costs, expand distribution capabilities, and modernize systems and the company's omnichannel capabilities.

The initial implementation of the transformation plan positioned Lowe's to deftly react to the demand acceleration following the onset of the COVID-19 pandemic. COVID-19 led existing homeowners to nest at home expanding its utilization to include working from home, home schooling, and a heightened demand for at-home leisure activities. Higher home asset utilization catalyzed more maintenance, repair, and remodel activity. More broadly, the pandemic also initiated a structural change in how people view and invest in their homes. We expect these trends to continue and to inure to the benefit of Lowe's going forward.

Importantly, while some had questioned whether the increase in demand during the pandemic had simply been a "pull forward," we believe that industry demand is likely to normalize at a higher baseline. This view is supported by an aging housing stock, a general lack of new inventory, robust home equity values, strong consumer balance sheets, historically low interest rates and a generational shift which is seeing millennial consumers engage in home ownership for the first time. The culmination of these variables has created an unprecedented backlog in professional home improvement projects heading into 2022, which should provide support for the medium-term outlook.

Independent from the accommodative macroeconomic environment, Lowe's is well positioned to continue to grow earnings-per-share through idiosyncratic opportunities including continued e-commerce improvements, and with a heightened focus and execution on the critically important pro consumer segment. Lowe's is also positioned to expand margins in 2022 through a multitude of self-help initiatives which should see Lowe's operating margin approach its current 13% target. Combined with best-in-class capital return, Lowe's is headed for another year of double-digit earnings-per-share growth.

As Lowe's continues to execute its multiyear business transformation, we believe the company is well positioned to continue to close the margin gap that exists compared to Home Depot which currently stands at 260 basis points (15.2% for Home Depot vs. Lowe's at 12.6%). Notably, the company has announced an analyst day in December 2022 during which the company intends to provide an updated roadmap on Lowe's goal to "substantially close the margin gap" with Home Depot.

The successful execution of Lowe's continued business transformation should allow the company to generate accelerated double-digit earnings growth for the foreseeable future. Notwithstanding the attractive growth outlook, Lowe's trades at about 16 times earnings, a low valuation for a business of this quality, and a substantial discount to its direct competitor, Home Depot. We find this valuation disparity to be anomalous in light of Lowe's strong execution and potential for further operational optimization.





### *Hilton (“HLT”)*

While the hotel industry was extremely negatively impacted by the COVID-19 pandemic, Hilton has done a superb job navigating industry volatility, a testament to both the company’s high-quality business model and excellent management team. At the onset of the pandemic, Hilton’s management team took decisive defensive actions which mitigated profit compression from industry declines in revenue. These actions have now positioned the company to generate improved margins, stronger cash flows, and higher investment returns as the business rapidly recovers to pre-COVID-19 demand levels.

Notwithstanding the arrival of the COVID-19 Delta and Omicron variants, industry RevPAR (the industry metric for same-store sales at a given hotel) has shown continued sequential improvement as travel and mobility have recovered along with COVID-19 vaccine rollouts and the evolution of COVID-19 towards a societally endemic virus. Recent trending has affirmed that a robust recovery scenario is underway, led by domestic leisure travel occasions which saw RevPAR eclipse 2019 levels during the 2021 holiday season, the first time since the onset of the pandemic.

Although there will be volatility in the pace of the recovery, we believe demand is likely to sustainably normalize at or above 2019 levels at some point later this year. In part, this recovery is being driven by an unprecedented snapback in average daily rate “ADR.” Historically a laggard during prior recessions, ADR has been buoyed by a strong consumer appetite to travel, broad and accelerating inflationary pressures (hotels can change room rates in real time), and a positive mix-shift from large corporations to small and medium-sized businesses which are leading the business transient recovery.

Throughout the pandemic, Hilton took actions to reduce corporate expenses by about 20% compared to 2019 levels. Simultaneously, the company provided resources and support to the Hilton owner community which further solidified Hilton as the preferred franchise partner thereby expanding Hilton’s pipeline of units around the world. Hilton has affirmed its near-to-medium term outlook of mid-single-digit net unit growth and the resumption of its historical 6% to 7% net unit growth beginning in 2023-2024, a higher growth rate than competitors, and further evidence of Hilton’s differentiated business model. We believe that Hilton will continue to grow its market share at an attractive rate over time given independent hotels’ increased interest in seeking an affiliation with global brands, particularly in the wake of the pandemic.

While the recovery may continue to be uneven, Hilton has made tremendous progress which will help it become an even more profitable and stronger business going forward. We believe Hilton’s experience with COVID-19 – the proverbial 1,000-year flood – has affirmed the company’s unique high-quality, asset light, high-margin business model, and reinforces our belief that Hilton deserves a premium valuation.

### *Chipotle (“CMG”)*

Chipotle continued its superb performance in 2021 driven by ongoing strength in digital sales and the recovery of in-store ordering. The successful business transformation led by CEO Brian Niccol and his team prior to the pandemic dramatically improved digital access and enabled the company to serve customers as they rapidly pivoted to order ahead pickup and delivery in 2020. These digital gains have proven resilient, with digital sales growth of 6% in the second half of last year even as in-store sales rebounded 37%, with the latter now approaching 90% of pre-pandemic levels.



During 2021, Chipotle achieved a significant milestone by generating average restaurant sales of \$2.6 million, eclipsing the 2015 peak of \$2.5 million and putting the company firmly on track to achieve management's goal of more than \$3 million. Same-store sales grew 19% in 2021, or 21% from 2019 levels, driven by the in-store sales recovery, key innovations including the quesadilla and smoked brisket, and menu price increases. Chipotle's superlative customer value proposition continued to be evident in 2021 as the company was able to raise prices to cover inflation and protect margins while experiencing very little customer resistance. Chipotle's most popular entrée, a chicken burrito/bowl, is still priced below \$8.00 in most parts of the country, demonstrating the significant latent pricing power that can be deployed if the inflationary environment continues.

In early February, management raised their long-term unit growth outlook to include the potential for at least 7,000 restaurants in North America, up from the prior goal of 6,000 restaurants, with annual new restaurant growth of 8% to 10% in 2022 and beyond, up from 6.5% average growth in the last three years. These new goals reflect the success of small-town locations that are delivering returns at or above traditional locations, as well as the robust performance of the Chipotlane digital drive-thru format, which will be featured in over 80% of new openings and is currently in only 12% of the store base.

In addition to new restaurants in North America, Chipotle continues to enjoy a long runway to drive growth across the business through menu innovation such as the recently launched pollo asado, loyalty program enhancements, operating leverage with 40% incremental restaurant margins, and the potential for international expansion beyond Canada.

### *Restaurant Brands ("QSR")*

QSR's franchised business model is a high-quality, capital-light, growing annuity that generates high-margin brand royalty fees from now four leading brands: Burger King, Tim Hortons, Popeyes and recently acquired Firehouse Subs.

During the past two years, the company took a number of steps to accelerate its digital investments. The expansion of the company's delivery footprint, modernization of its drive-thru experience, increases in mobile ordering adoption, and improvement in its loyalty programs have helped drive digital sales and the company's recovery.

Burger King's international business and Popeyes have returned to strong same-store sales growth relative to pre-COVID-19 levels, whereas Burger King in the U.S. and Tim Hortons in Canada are still below 2019 levels. Burger King U.S. is now under new leadership, and we are optimistic about the new management team and their efforts to return the brand to sustainable growth. Tim Hortons' recovery in Canada is tied to mobility, showing significant improvement each month during the last quarter, culminating with December improving to low-single digit growth relative to 2019 levels before the impact of Omicron.

As the company returns to sustainable growth, management continues to take important steps to position the company for long-term success. The company announced several new markets for the Tim Hortons and Popeyes brand, and returned to its historical mid-single-digit unit growth last year. QSR also closed its acquisition of Firehouse Subs for \$1 billion in December. We expect the company to accelerate the Firehouse's unit growth in the coming years.

As underlying sales trends recover, we expect QSR's share price will more accurately reflect our view of its business fundamentals over time. In the meantime, the company recently initiated a share repurchase program and is currently buying back stock at what we believe to be a low valuation.



### *The Howard Hughes Corporation (“HHC”)*

The COVID-19 pandemic changed how many people work and live, and highlighted the value of HHC’s unique master planned community (“MPC”) assets. During the past two years, under the new management of David O’Reilly and Jay Cross as CEO and President respectively, HHC embarked on a transformation plan to become a leaner and more focused organization centered on the company’s core MPC business. Since embarking on the plan, HHC has generated \$376 million in net proceeds from asset sales.

In 2021, HHC redeployed proceeds from non-core asset sales into the \$600 million acquisition of a shovel-ready, 37,000-acre MPC called Douglas Ranch in Phoenix, Arizona. The site is entitled for 100,000 residential homes and 55 million square feet of commercial development.

As the world emerges from COVID-19, the migration to the suburbs, especially in lower-tax states, has continued as evidenced by strong MPC land sales in HHC’s top-ranked Summerlin and Woodlands MPCs. HHC’s operating assets, particularly its retail portfolio, have also recovered in 2021 and have returned to pre-COVID-19 levels. HHC’s Ward Village in Hawaii has now pre-sold 64% of its eighth condo tower only two months after launching sales.

We continue to believe that Howard Hughes’ uniquely well positioned MPCs and portfolio of high-quality operating assets will deliver substantial, shareholder-value-creating growth for years to come.

### *Domino’s Pizza (“DPZ”)*

Our investment in Domino’s was off to a strong start with shares up over 50% from when we made the investment in March through the end of 2021, driven by robust operating results and a late-year omicron-driven rally in “stay-at-home” stocks. Most of these gains disappeared in the first few months of this year with Domino’s stock price declining 29% through March 22nd. In addition to a broader market selloff, especially in higher-growth companies, we believe the recent stock price weakness is attributable to an ongoing slowdown in same-store sales growth that began in the third quarter of 2021. Domino’s has a long history of defying the skeptics and outperforming following brief periods of weakness, and we believe this time is no different.

The recent deceleration is driven primarily by driver shortages due to the current state of the U.S. labor market, which is acutely impacting the delivery business that comprises two-thirds of sales. While driver shortages have led to shortened hours and customer service challenges at many locations, the company is taking corrective action by conducting a full assessment of the driver labor market, launching new hiring and training systems, raising wages, and eliminating time consuming in-store tasks.

In light of high inflation in labor and food costs, Domino’s recently refreshed its core mix & match delivery offer by raising the price point from \$5.99 to \$6.99 and adding new products to the offer. We estimate that this one dollar increase will be a several percentage-point tailwind to same-store sales growth, without taking into account any positive benefit to ticket that Domino’s has historically seen from new product additions. This is the first time the company has increased the price on this offering in over twelve years, and we continue to believe Domino’s customer value proposition remains exceptional. Product innovation, a peak level of advertising funds, and the return of key promotions should provide additional tailwinds to sales growth.



Concurrent with fourth quarter results in early March, Domino's announced the promotion of Russell Weiner, COO and President of Domino's U.S., to CEO effective May 1st, the retirement of outgoing CEO Ritch Allison, and a new CFO hire. Shortly after joining Domino's as Chief Marketing Officer in 2008, Russell led the wildly successful Pizza Turnaround campaign, which revitalized the Domino's brand and led to 7% average U.S. same-store sales growth over the subsequent twelve years. We believe there is no one better equipped to drive growth for Domino's, and are looking forward to what Russell can deliver in the years to come.

Domino's currently trades at a mid-20s multiple of forward earnings, a compelling valuation given its leading position in the QSR pizza category enabled by its crown jewel digital and delivery infrastructure, the high certainty nature of the business, and its mid- to high-teens, long-term earnings growth. We are pleased that the company is taking advantage of its depressed share price by continuing to repurchase shares, consistent with its longstanding policy of returning excess cash to shareholders.

#### *Fannie Mae ("FNMA" or "Fannie") and Freddie Mac ("FMCC" or "Freddie") (together "the GSEs")*

Fannie and Freddie suffered large stock price declines of 66% and 64%, respectively, in 2021, primarily driven by a Supreme Court ruling in June that was adverse to shareholders, as we previously discussed in detail in our Semi-Annual report. Shareholders suffered another legal blow in February 2022, when the Court of Appeals for the Federal Circuit ruled decisively against the plaintiffs in the takings cases filed in the Court of Federal Claims, which will end this litigation unless the Supreme Court decides to review the decision.

Despite these disappointing outcomes in the courts, we believe that the GSEs' exit from conservatorship remains a question of when and not if, as their role as the irreplaceable core of the U.S. housing finance system is now broadly acknowledged across the political spectrum. Privatization of Fannie and Freddie will ensure that private capital bears the first loss in any future real estate dislocation, rather than having Treasury or U.S. taxpayers bear the risk. As common shareholders, we own valuable perpetual options on both entities that we believe will be worth many multiples of today's prices once re-privatization occurs. The perpetual nature of these options protects our investment even if Fannie and Freddie do not exit conservatorship for years. In the meantime, both entities continue to build capital through retained earnings and now have combined capital of \$75 billion.

#### **Exited Positions:**

As previously disclosed, Pershing Square exited its investments in Starbucks and Agilent in 2021.



# Endnotes and Disclaimers

## ENDNOTES TO CHAIRMAN'S STATEMENT

<sup>i</sup> Calculated with respect to Public Shares only and as of December 31, 2021. Performance results are presented on a net-of-fees basis. Net returns include the reinvestment of all dividends, interest, and capital gains from underlying portfolio companies 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 fees (if any). Performance is based on the dollar return for the specific period, including any and all dividends paid by the Company, calculated from the beginning of such period to the end of such period. Past performance is not a guarantee of future results.

<sup>ii</sup> Total shareholder return and discount to NAV for 2021 is calculated based on PSH's Public Shares traded on Euronext Amsterdam. The total shareholder return over the same period for Public Shares listed on the LSE in Sterling and USD was 18.7% and 16.4%, respectively. Total shareholder return for Public Shares includes dividends paid with respect to such shares.

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

<sup>iv</sup> Assets reflect the Company's net assets calculated on February 4, 2021 in accordance with IFRS without deducting amounts attributable to accrued performance fees, while adding back the Company's value of its debt outstanding (\$2.1 billion).

<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' Indentures. Under the Indentures, 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 Indentures, "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.

<sup>vi</sup> Reflects the discount to NAV of the Company's Public Shares traded on Euronext Amsterdam on April 28, 2017 and March 22, 2022. The discount to NAV of the Company's Public Shares listed on the LSE was 33.8% on March 22, 2022 for both Sterling and USD. The Company did not have an LSE listing as of April 28, 2017.

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

## 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 from underlying portfolio companies and reflect the deduction of, among other things, management fees, brokerage commissions, administrative expenses and accrued and/or crystallized performance allocation/fees (if any). The Company's performance is based on the dollar return for the specific period, including any and all dividends paid by the Company, calculated from the beginning of such period to the end of such period. Where the Company's performance is presented with that of PSLP, performance results assume that an investor (i) has been invested in PSLP since inception, has not invested in Tranche G, and has participated in any "new issues," as such term is defined under Rules 5130 and 5131 of FINRA and (ii) 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.

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, 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®, are registered trademarks of Standard & Poor's Financial Services LLC. © 2021 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.
4. The performance data presented on page 2 under "Cumulative (Since Inception)" and "Cumulative (Since PSH Inception)" is calculated from January 1, 2004 and December 31, 2012, respectively.
5. NAV performance is presented as net returns. Please also refer to Endnotes i and ii of the Chairman's Statement.
6. Please refer to Endnotes 1, 3 and 4.
7. Stock price performance reflects the Company's NAV performance prior to its IPO and the NAV performance of PSLP prior to the inception of the Company. Please refer to Endnote 1. The Company's share return is calculated based on PSH's Public Shares traded on Euronext Amsterdam.
8. Twelve-year performance data is calculated from January 1, 2004 to July 31, 2015. PSLP performance data is used prior to the inception of the Company. Also refer to Endnote 1.
9. Equity under management reflects the Pershing Square Funds' net assets calculated on July 31, 2015 in accordance with U.S. GAAP without deducting amounts attributable to accrued performance fees.
10. Assets equal the net assets of the Pershing Square Funds' calculated in accordance with U.S. GAAP without deducting amounts attributable to accrued performance fees, while adding back the principal value of the Company's debt outstanding (\$2.43 billion and €500 million translated into USD at the prevailing exchange rate at the reporting date, 1.10).
11. Amount includes investments in the Pershing Square private funds by charitable entities associated with Pershing Square employees and/or affiliates.
12. The contributions and detractions to performance presented are based on net returns. Please refer to Endnote i of the Chairman's Statement.



13. For the purpose of determining the equity portfolio percentages, investments are valued as follows: (a) equity or debt is valued at market value, (b) options referencing equity or debt are valued at market value, (c) long call options and short put options (or vice-versa, short call options and long put options) held on the same underlying issuer and with the same strike and same expiry are grouped together and treated as synthetic equity positions, and are valued at the market value of the equivalent long equity position (or vice-versa, the equivalent short equity position), and (d) swaps or forwards referencing equity or debt are valued at the market value of the notional equity or debt underlying the swaps or forwards, except for positions referencing Pershing Square Tontine Holdings, Ltd., which are valued at market value.
14. Whether and when a distribution of SPARC warrants (“SPARs”) may take place remains subject to the approval of amendments to the stock exchange listing rules permitting the listing of the SPARs and the SEC review process and declaration of effectiveness of an SEC registration statement registering the SPAR distribution under the Securities Act of 1933. The decision to make the SPAR distribution as well as the final terms and conditions of any SPARs is subject to the review and approval of the Board of Directors of Pershing Square SPARC Holdings. The terms, if any, of SPARs that are ultimately distributed may be materially different from those described in or implied in this report. No assurance can be given that SPARC will be ultimately effectuated on the outlined terms in this report or at all. This material is for informational purposes and does not constitute an offer of any securities. The receipt of this document by any recipient is not to be taken as investment advice and all recipients are strongly advised to consult their own independent advisors on any investment, legal, tax or accounting issues relating to these materials.
15. This report reflects the contributors and detractors to the performance of the portfolio of the Company. Other than bond interest expense, 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.

The contributions and detractors to performance presented herein are based on gross returns which do not reflect the 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.

For each issuer, 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. For all other currency derivatives, the long/short classification is determined by the non-USD leg of the derivative. For example, a long USD call/GBP put option position would be considered a short exposure, and a long USD put/GBP call option would be considered a long exposure.

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.



16. While the Pershing Square Funds are concentrated and often take an active, engaged role with respect to certain investments, they will own, and in the past have owned, other investments, including passive investments and hedging-related positions. “Short Positions” includes options, credit default swaps 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 experience engaging with public companies 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 2021. 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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