



PERSHING SQUARE CAPITAL MANAGEMENT, L.P.

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June 12, 2012

Dear Pershing Square Investor:

The Pershing Square funds trailed the major market indexes for the first quarter of 2012, but have continued to outperform the market since inception as set forth below:<sup>1</sup>

	For the Quarter January 1 - March 31	Year to Date January 1 - March 31	Since Inception
<b><u>Pershing Square, L.P.</u></b>			<b><u>01/01/04 - 03/31/12</u></b>
Gross Return	11.8%	11.8%	718.9%
Net of All Fees	9.3%	9.3%	411.8%
<b><u>Pershing Square II, L.P.</u></b>			<b><u>01/01/05 - 03/31/12</u></b>
Gross Return	11.5%	11.5%	470.6%
Net of All Fees	9.2%	9.2%	284.3%
<b><u>Pershing Square International, Ltd.</u></b>			<b><u>01/01/05 - 03/31/12</u></b>
Gross Return	11.5%	11.5%	377.9%
Net of All Fees	9.3%	9.3%	230.9%
<b><u>Indexes (including dividend reinvestment)</u></b>			<b><u>01/01/04 - 03/31/12</u></b>
S&P 500 Index	12.6%	12.6%	49.7%
NASDAQ Composite Index	19.0%	19.0%	65.6%
Russell 1000 Index	12.9%	12.9%	54.4%
Dow Jones Industrial Average	8.8%	8.8%	56.0%

### Time Arbitrage and Public and Private Equity Volatility

Time arbitrage – taking advantage of the opportunity for long-term profit offered when short-term investors sell due to disappointing short-term macro or business progress – has been a major source of profitability at Pershing Square since the inception of the firm. In our experience, stock prices are often much more volatile than the underlying value of the business they represent.

<sup>1</sup> Past performance is not necessarily indicative of future results. Please see the additional disclaimers and notes to performance results at the end of this letter.

We believe it is self-evident that the value of a business is the present value of the cash that it will generate for distribution to its owners over its lifetime. For the high quality, simple, predictable, low-leverage North American businesses in which we prefer to invest, their discounted expected lifetime cash flows generally do not change meaningfully due to events in Greece, greater Europe, or a few quarters of negative same-store sales. Despite this, many investors choose to sell on negative news and in moments of company or market uncertainty because of fear, a limited understanding of what they own, margin borrowings, investor redemptions, and/or the belief that other investors may sell first, driving down short-term values. Many investors have chosen to avoid public market investing because of the high degree of stock market volatility in recent years, comforted by the fact that their private investment alternatives do not appear to be as volatile.

In reality, there is a high degree of correlation between public market and private values because of the opportunities for arbitrage if there are large disparities between the two. Private market values are, in reality, bouncing around as much as, and often more than, public market values. Because one cannot witness these price changes on a Bloomberg screen, however, private equity investors avoid the psychological effects of volatile public stock price movements. Since many private businesses have substantially more financial leverage than their public counterparts, the equity volatility of these more leveraged private companies is in reality substantially greater than their public comparables.

An investor should not conflate the apparent low volatility of their private holdings with the lower frequency of market value data one typically receives on a private equity portfolio. This is particularly true when private values are kept at cost until a significant development, and even when the values are determined by appraisal. A long-only, leveraged private equity portfolio is axiomatically more volatile than a portfolio of less levered comparable companies that trade publicly. One of the significant benefits of investing in public companies is that investors can choose to purchase or sell any day the market is open. The drawback of public liquidity is that volatile price movements can cause investors to make economically irrational decisions – for example, by selling an interest in a business at an irrationally low price – because of their inability to stomach market volatility.

In our investment approach, we wait for the opportunity to purchase a great business at a highly discounted valuation, when investors overreact to negative macro or company-specific events. This is the time arbitrage part of the strategy. Our time frame for value realization is long term so we don't typically react to short-term factors that have little impact on long-term, intrinsic values. While the opportunity to take advantage of time arbitrage is a competitive advantage for Pershing Square, it is a limited one because there are other investors who share our longer-term horizon.

Our greatest competitive advantage is the ability to buy a stake in a company with the ability to intervene in the decision making, strategy, management, or structure of the business. We are one of the few investors in the world who can implement this approach at large corporations, which gives us an enormous long-term competitive advantage.

The principal weakness we share with most other money managers is the fact that our capital base is not permanent, and we therefore keep cash on hand and/or own passive liquid investments which we can sell to meet potential investor demands for capital. To address this weakness in our open end hedge fund structure, later this year, we intend to launch the private phase of Pershing Square Holdings, Ltd., which we expect to eventually list on the London Stock Exchange.

I begin with these observations about Pershing Square's competitive advantages to remind you how we think about opportunity in the portfolio. For each of the first four portfolio companies we discuss below – Canadian Pacific, JC Penney, Justice Holdings and General Growth – the opportunity for profit was principally created by our ability to effectuate change and to take advantage of time arbitrage.

We purchased stock in CP from shareholders who had given up on management. We bought with the belief that we could catalyze a change in management.

We purchased stock in JC Penney from shareholders who had lost confidence in the sustainability of the company's strategy and management's ability to implement necessary structural changes. We bought with the belief that we could catalyze a change in management.

We purchased stock in General Growth from investors who believed that the probability of recovery from a delisted penny stock in a bankruptcy was extremely remote. We bought with the belief that our 25% stake in the company would give us an important seat at the table that would allow us to drive a consensual resolution in bankruptcy and enormous profits for shareholders.

We made a deal to merge Justice Holdings with Burger King by raising long-term capital in a public vehicle and merging it with a private company whose investors chose the certainty of execution of a merger with Justice compared to the inherent vagaries and uncertainty of attempting a public offering with the notably fickle IPO investment community.

In each case, we had the resources to effectuate the necessary change and the capital commitment from investors who were willing to wait for the changes to be implemented. During the course of each investment, however, there have been periods of enormous skepticism both from the investing public at large and, presumably, from some of you who are invested in the Funds.

In CP, the stock price did not increase initially even after we filed a 13D disclosing a 12% stake suggesting that change would be forthcoming. GGP's stock price has risen and fallen by 50% or more numerous times over the course of our nearly four-year ownership. Justice had traded for many months of its existence at a 15% or so discount to its net cash on hand prior to the announcement of the Burger King transaction. JCP's stock price is below our cost of October 2010 despite material progress in the transformation of the company, and the aggressive execution of a \$900 million cost reduction program.

The Pershing Square funds have been a large beneficiary of our ability to take advantage of periodic market skepticism by increasing our ownership at more favorable prices. Volatility is the friend of the unleveraged long-term investor. We much prefer the bumpy road to higher rates of return than a smoother ride to more modest profits.

## **Portfolio Update**

### **Canadian Pacific Railway Ltd. (CP)**

On May 17<sup>th</sup>, all seven of the Nominees for Management Change including Paul Hilal and myself were elected to the board of CP each with support from 85% to 94% of the shareholders. The six CP directors who received the fewest votes, including CP's Chairman and CEO Fred Green, resigned from the board the night before the annual meeting.

As a result of the election, we have received an overwhelming mandate for management change at CP. The new board is working diligently to identify a new CEO for the company, while Steve Tobias, a Pershing Square nominee and former Executive Vice Chairman of Norfolk Southern, serves as interim CEO. In light of the limited number of potential railroad CEO candidates, we do not expect a lengthy search process. During the contest, we proposed legendary railroader Hunter Harrison as CEO, but committed that the new board would also consider other candidates for the role.

On June 4<sup>th</sup>, the board elected Paul Haggis as its new chairman. We recruited Paul to our board slate because he brings valuable turnaround and board expertise as well as strong relationships in the Canadian business and government communities.

Because CP's business issues are almost entirely operational in nature – the railroad's operating margins are half that of its Canadian competitor due to its inefficient asset utilization and productivity – this turnaround is substantially less risky than one predicated on increasing revenue growth. CP's business will, however, be somewhat impacted by global macro conditions. In assessing the profit potential of this investment, we have used conservative assumptions about the global economic environment. Even in a weak economic environment, we expect the potential for operating profit enhancements to greatly exceed the impact of macro headwinds on the value of the business.

The significance of our landslide victory at CP has not gone unnoticed in board rooms in Canada and in the United States. In CP, an activist shareholder from the U.S. received overwhelming shareholder support from Canadian and U.S. shareholders in a contest against a high profile board of a large cap iconic Canadian company. Our success at CP demonstrates that no underperforming company can resist needed change when it is proposed by a credible long-term investor.

### **J.C. Penney Company, Inc. (JCP)**

The transformation of JCP is rapidly underway. On January 25<sup>th</sup>, Ron Johnson, JCP's new CEO, launched a new strategy which includes new branding, marketing, and, most significantly, a dramatic change in the Company's pricing and promotional strategies. Over the last 20 years, JCP had implemented an extremely promotional strategy with more than 500 promotional 'events' last year. The result of this strategy had been declining sales, reduced margins, and an inability to attract high quality, proprietary merchandise in the stores because the most desirable brands are not interested in selling product within a highly discount-oriented store environment.

The ability to offer proprietary, well-presented products in the stores is critically important in a world in which bricks-and-mortar retailers compete with internet retailers which can conveniently offer commodity products at lower prices. Prior to the change in strategy, JCP's business was deteriorating and was at risk of further declines because the company offered largely undifferentiated products and competed principally on price.

By changing the pricing and promotional strategy of the business and updating the JCP brand, Ron has been able to attract a large number of new vendors and brands that were previously unwilling to sell in a JCP store. By allowing these vendors to open their own 'boutiques,' 'shops,' and 'stores' – essentially small, medium and large stores within a JCP store – they can control their selling environment, presentation and the customer experience. Some of these new stores within a store will begin to open this August.

Previously, the only alternative for these vendors to control their store environment would be to open specialty stores in a mall, pay high rents, invest materially more capital, and train and employ a large sales force to sell their products. By partnering with JCP, the vendor avoids these additional business complications and the capital costs of building out their own mall-based store portfolio, while gaining an overnight national presence.

JCP's new business model allows it to leverage one of the Company's important competitive advantages, i.e., its ownership of 49% of its real estate with the balance leased at about four dollars per square foot. This low cost real estate is an enormous competitive advantage when compared with specialty store rents which average approximately \$40 per square foot in malls where JCP is located.

JCP's store-within-a-store experience with Sephora has proven that non-discounted high quality brands can achieve high sales per square foot in a JCP store. Sephora stores inside JCP currently generate sales of more than \$600 per square foot compared with an average of about \$150 per square foot for the rest of the JCP store. By building out new shops which generate substantially higher sales per square foot, JCP should be able to greatly increase its overall sales per square foot and profitability.

There is more to the strategy than just opening up new stores within the store. Ron is an expert at creating store environments that are extremely appealing to consumers and in using technology to improve the shopping experience. The public will learn more about the new JCP selling environment when the company opens 10 stores within a store beginning this August.

Major business transformations often happen privately, out of the public eye, because management teams prefer to avoid the distraction of public commentary and skepticism while change is underway. In the more traditional case, a company is taken private, the business is transformed, and is later resold to the public after it is fixed. Management gets the benefit of working in private, and the substantial majority of value created is retained by the private equity investor. The investing public does not get to participate in the value creation, and therefore has little experience investing during a period of dramatic business change.

In the first quarter of change in JCP's pricing and promotional strategy, same store sales dropped 18.9%. The decline in sales was primarily due to reduced traffic, particularly on the weekends when its competitors are more promotional. While the prices in the store are at least as competitive as they were last year – items were initially marked down 40% from face prices, and certain seasonal items were discounted further for the entire month – the consumer does not yet understand the new pricing program. While the company has taken strides to change the brand image of JCP with a new marketing campaign, the campaign thus far has failed to successfully explain to the customer the extraordinary value and quality available in the store.

The test of a great management team is its ability to recognize when it has made a mistake, and then change course, and adapt to the feedback they are receiving from customers. A great retailer needs to have the confidence of his convictions, in order to make the dramatic changes that are required to turn around a declining business. It is critical, however, that management has the humbleness to recognize when mistakes have been made, and when a course correction is necessary. Ron and the rest of the JCP team are working hard to fix the marketing and messaging, and we are confident that they will get it right.

The initial negative sales impact of the transformation of JCP is best understood by a real estate analogy. Picture a well-located mall that has deteriorated over the last 20 years. The mall has a tired appearance, and the tenant base is comprised of a lower quality selection of stores. In order to prop up sales, the mall owner has blanketed the world with coupons to drive traffic. Each year, mall sales have declined and the long-term prospects of the property continue to deteriorate. The highly promotional positioning of the mall has prevented the mall from attracting best-in-class tenants.

In November of last year, a new mall manager with a superb reputation was hired. One of his first moves was changing the signage and branding of the mall and eliminating the coupon-oriented marketing campaign in order to attract a higher quality base of tenants. The strategy has been successful in generating a waiting list of new high quality tenants who are excited to get into the property. The first shops will open this August with 10 new shops opening by the Fall selling season. In the short term, however, the current tenants which depended on coupon-generated store traffic have shown a substantial sales decline. This is to be expected.

The long-term value of the property depends on the mall attracting higher quality tenants that will generate larger sales volume. The tenants that have been recruited to date have a proven ability to generate large sales volumes and are going to attract a larger base of customers than the property's current tenants. The mall manager is confident in the property's turnaround based on the tenant roster that will open stores beginning in August, but for competitive reasons he has not

yet disclosed the identity of the new tenants to the public. The mall's traditional customers are puzzled as to why their coupons have been taken away, which has reduced customer traffic. While the mall manager has done his best to clean up the property, the property won't show well until the new stores are open.

The mall has two large owners on his management committee and a highly dispersed group of smaller owners. The mall manager talks on a regular basis with the large owners and is able to share with them all of the details of the property's weekly sales progress, the identity of new tenants, and the detailed plans for the mall renovation and marketing program. The larger group of smaller owners receives less information because it would be a competitive disadvantage for the mall to share this information broadly.

While the property used to make quarterly distributions to its owners, the mall manager has decided to stop making distributions to preserve capital to accelerate the transformation of the mall, and to maintain maximum balance sheet strength during the transformation. The reported financials are complicated by the inclusion of substantial expenses related to the repositioning of the mall and its management. As a result of the complexity of the financials, the limited amount of information available, and the cancellation of distributions, a number of the smaller owners have panicked and are selling their interests in the mall. The press and public commentators are having a field day. They too have limited information and have written articles that are short on facts and long on speculation.

The good news is that it is only a few more months before the first new stores open. With time and some changes, the marketing message for the property will be better understood, old customers who left will return, and a large base of new customers, who hadn't shopped at the property before, will start shopping because they are attracted by the new tenants and the more attractive and compelling shopping experience. The mall will become the most attractive place to shop in the market because each month two to three new stores will be opening which will create news and a reason for existing and new customers to shop in the mall.

When we first announced our stake in JCP, the stock price increased to the low \$30s per share. Shortly after announcing our stake, we were approached by one of the most well-respected private equity funds in the world who expressed an interest in acquiring the company at a substantial premium. While we welcomed this fund as an owner of the stock, we had no interest in selling the company for a quick premium because we believe in the long-term value creation opportunity.

We also believe that public market investors benefit by being able to participate in the value created from a business transformation, rather than being forced to sell out. While there will likely continue to be a high degree of stock price volatility during the course of our JCP transformation, we believe that long-term investors will benefit greatly from the outcome.

By the beginning of the company's next fiscal year in February, we expect the most challenging year of the turnaround will have been completed. Sales should rise from the current low levels as the current JCP consumer comes to better understand the pricing strategy, and as new product is introduced with a new store presentation that attracts both new and traditional JCP customers.

JCP is currently operating at a fraction of its potential. While a stronger economy is a positive for nearly every business, the macro environment is unlikely to have a substantial effect on the performance of JCP. Rather, management's degree of success in transforming the company will be the principal driver of the profitability of our investment.

Despite the fact that the company has stated that it will take about four years to *complete* the transformation, we do not believe that investors will need to wait long to see substantial stock price appreciation from current levels. As the company makes operational, strategic, and financial progress over the next 12 months, we expect the stock price to reflect that progress. We believe JCP stock is extremely cheap at current prices and that it offers one of the best potential opportunities we have seen for long-term profit when compared with the risk of a permanent decline in value from today's share price.

### **Justice Holdings/Burger King**

We participated as a Founder in Justice Holdings, Ltd. by investing approximately 30% of the \$1.4 billion of capital raised by this London Stock Exchange listed cash shell. The Funds received one third of the Founder economics for sponsoring the transaction. While cash is usually a commodity, by raising cash in a publicly traded vehicle that could be used to take public a large private business, we believed that we could access a proprietary, high quality private transaction in an uncertain world in which there is a high degree of uncertainty in executing an IPO.

We had high standards for a potential Justice transaction. We sought to purchase a business that fits Pershing Square's traditional criteria, namely, a simple, predictable, free-cash-flow generative company which has a long-term sustainable competitive advantage due to brand, unique assets, and/or market position, and earns high returns on invested capital. As important, the company had to be available at a fair price and be managed by owner-oriented, trustworthy, best-in-class management. I am pleased to say that the arrow of Justice found its target.

On April 3<sup>rd</sup>, Justice Holdings announced that it would merge with Burger King. When the transaction closes, Justice shareholders will own approximately 29% of the new company with the Pershing Square funds owning approximately 11% of the pro forma company. We expect the transaction to close shortly, Burger King Worldwide Holdings to begin trading on the New York Stock Exchange, and Justice Holdings to effectively cease to exist.

Burger King is the world's second-largest fast food hamburger restaurant chain, with over 12,500 restaurants in 80 countries. The Company has significant global awareness as a 58-year-old brand which has benefited from the billions spent on marketing to consumers around the world. On April 4<sup>th</sup>, we presented our detailed investment thesis on the company in a web presentation entitled "Justice Is Best Served Flame Broiled," which we previously distributed to you.

Burger King's U.S. business turnaround is being driven by a new menu, a new marketing strategy, an accelerated, lower-cost, store renovation program, and improved operations overseen



by a larger and more effective store oversight team. International franchise growth is being achieved by refranchising company-owned units (selling company-owned stores to franchisees) and the formation of joint ventures with best-in-class local operators and private equity backers who commit to an aggressive schedule of store openings. The company has formed and launched joint ventures in Brazil and Russia, and anticipates completing joint ventures in China and other emerging markets. Burger King's international restaurants compete much more effectively against McDonald's than they do in the U.S. The company believes it can achieve similar scale to McDonald's in many countries around the world.

By next year, Burger King expects to have refranchised substantially all of its company-operated units around the world. The public company will then become what we have called a Brand Royalty company, which when successfully executed, is one of the best business models in the world. After the refranchising is complete, the company's revenues will be largely comprised of a franchise royalty stream from a rapidly growing portfolio of franchised restaurants. Because the company's revenues will grow without the need for capital investment from the parent company, the substantial majority of the cash flows generated by the company over the long term can be returned to shareholders through share repurchases or dividends.

The company has made enormous progress with each of its strategic initiatives since the business was purchased by 3G, a private equity fund managed by the Brazilian investors best known for their controlling ownership of Anheuser Busch, a now much more profitable and better managed business under their leadership. Burger King's free cash flow growth has nearly doubled over the last two years as the cost structure of the company has been rationalized, as company-operated stores have been sold, and as store operations have improved.

After years of negative same store sales, same store sales turned positive in December of last year, and were positive each month of the first quarter of 2012. While the company has not reported monthly same store sales in the second quarter, Carrols, the largest publicly traded Burger King franchisee has reported continued high single digit same stores sales in the second quarter. We believe this sales growth has been driven by increased consumer awareness of the new menu driven by the recently launched marketing campaign.

Once Burger King is public, 3G will retain 70% of the company and control the board of directors. While we were offered a seat on the board, we chose not to join, such is our confidence in the current management and ownership group. We join boards only when we believe we can add significant value to the company by becoming an insider.

Once the transaction closes, Burger King will become part of our passive portfolio. While we are generally averse to making active investments in controlled companies, we view 3G's controlling ownership of Burger King as a substantial positive for our investment because we think highly of management and 3G, agree with their business plan for the company, and because our interests are aligned by virtue of their 70% continued ownership.

As you may know from the public disclosure of the transaction, I am personally an investor in the 3G private equity fund that owns Burger King. To avoid the potential for any actual or perceived conflict of interest, just prior to the Justice merger, the 3G private equity fund will

make an in-kind distribution to me of shares in Burger King reflecting my proportionate interest in the 3G fund. As a result, unlike the other investors in the 3G fund, I will not be cashing out any of my interest in Burger King. Once the Justice/Burger King merger closes, my interest in Burger King will increase substantially through the additional economic interests in the company I will own through the Pershing Square funds. Furthermore, I have committed to retain my personal stake in Burger King until after the Pershing Square funds sell their entire interest in the company so that my ownership does not interfere in any way with the Funds' ultimate exit from this investment.

### **General Growth Properties (GGP)**

In the first quarter we sold our position in Rouse Properties, the spinoff of GGP's lower-productivity mall portfolio. At ~\$40mm of capital, the market value of our stake in Rouse would have represented a ~35bp position in our portfolio, well below our target investment size. We also believe that lower quality malls face significant challenges. These risks are somewhat mitigated by Brookfield Asset Management, the controlling shareholder of Rouse, who has a superb track record in the real estate business, but the small size of our holding overwhelmed the track record of the sponsor.

GGP continues to post strong first quarter results with greater tenant sales, higher occupancy, and improved leasing spreads. GGP's mall segment reported 4.1% same-store NOI growth, putting the company on pace to exceed management's full-year guidance of 2.8% growth for 2012 by a healthy margin. As below-market leases that were negotiated in bankruptcy continue to expire and are replaced at significant rent premiums, we expect GGP's earnings momentum to continue.

Despite GGP's stock price's substantial increase over the last six months, the company remains attractively valued at a 5.3% earnings yield. By comparison, Simon Properties, GGP's direct competitor, trades at more than a 15% higher multiple. While GGP trades at a lower valuation than its Class A mall peers, we think it has meaningfully more cash-flow growth potential. In a world in which there are few opportunities to earn safe cash yields, we believe that Class A malls at mid 5% and growing yields offer both a relative and absolute value.

### **Citigroup, Inc. (Citi)**

In the first quarter, Citi's share price appreciated materially from a depressed level at the end of 2011, and in recent weeks, declined back to similar levels. We have believed for some time that Citi is a well-capitalized financial institution trading at a substantial discount to intrinsic value. We have also believed that Citi's ability to return capital to shareholders principally through share repurchases will be an important catalyst for value recognition by shareholders.

Shortly after the first quarter ended, the Federal Reserve released the results of its annual stress test for large U.S. financial institutions and Citi reported earnings. These annual stress tests attempt to determine how a severe economic downturn would impact the capital of the largest U.S. banks. In conjunction with the stress test, the banks submit a proposal to return a specified

amount of capital to their shareholders over the next several years. Based on the test's results, the Fed either approves or rejects the banks' proposals.

We believe this year's stress test results showed that Citi is one of the best capitalized U.S. banks, which would make it unlikely to need to raise capital even in the event of a continued severe and long-lasting economic downturn. Unfortunately, the Fed did not approve Citi's proposal to return what we believe was \$5 billion to \$8 billion of capital to its shareholders.

The Fed requires that banks maintain at least a 5% capital ratio after undergoing the stress scenarios, which is a measure of a bank's equity capital relative to its risk-weighted assets. If Citi had been allowed to return the amount of capital to shareholders that it proposed, it would have achieved a 4.9% capital ratio, 10 basis points below the required minimum. Unfortunately, the Fed took a "thumbs-up" or "thumbs-down" approach to the capital return request – if the bank's request was one dollar above the minimum as determined by the Fed, its request was denied.

Citi is required to resubmit a capital plan in the next few months. Based on the amount of capital that Citi generated in the first quarter of this year, the bank's capital is now above the minimum 5% capital ratio by a wide margin if it were to resubmit the same capital request. In light of the currently uncertain environment, however, Citi has elected not to seek to return capital to shareholders in 2012, delaying a potential valuation catalyst into 2013.

In the first quarter of this year, Citi reported one of its strongest earnings results in the last several quarters. Revenue increased at a healthy rate in its core businesses, credit costs continued to improve, and capital levels continued to increase. With this progress, Citi generated a more than 15% return on tangible equity in its core business. Citi's core businesses also generated operating leverage, as revenue grew more quickly than expenses. Citi's historic inability to generate operating leverage in previous quarters had previously been a red flag for investors.

Citi remains extremely cheap relative to our estimate of intrinsic value – it trades at less than 60% of tangible book value, about six times last year's underlying earnings per share and about four times normalized earnings per share after giving credit to its net tax assets and excess capital.

The intrinsic value of Citi has increased meaningfully over the course of our ownership of the bank while the stock price has declined substantially. We believe that the continued generation of profits and increase in growth of tangible book value will ultimately cause investors to revalue the bank at prices approaching its intrinsic value.

### **Liquidated Investments**

We sold Fortune Brands Home and Security, Kraft Foods, and Family Dollar over the last several months. While we believe each of these companies is a high quality, well-managed business, we found more attractive uses for our capital.

## **New Investments**

We have begun to build a large stake in a business that meets our high standards for business quality at a low valuation. We have also added an equity short position to the portfolio. We look forward to sharing our thinking about each of these investments when appropriate.

## **Fund Subscriptions**

Beginning January 1, 2013, the Funds will only accept subscriptions on the first day of each quarter. This change will assist us in synchronizing our fund flows and reducing the need to rebalance the funds. Through the remainder of 2012, the Funds will continue to accept subscriptions on the first day of each month.

## **Organizational Update**

Priti Jajoo joined Pershing Square as a controller in February 2012. Prior to joining Pershing, Priti worked at TPG Opportunities Partners and Ernst and Young LLP. She received her BBA from University of Georgia and Masters of Accountancy from University of Virginia.

Suzanne Curl joined Pershing Square as Senior Counsel and Compliance Officer in March 2012. Suzanne has extensive experience as a hedge fund attorney including tenures with Davidson Kempner Capital Management LLC and Schulte Roth & Zabel. She received her BA from Brandeis University and JD from University of Pennsylvania.

We are pleased that Senol Kucuk, a long-time consultant to our technology team, has joined Pershing Square as a full time employee. The IT team also welcomed Shameer Ramjohn as its newest member in April.

## **European Investor Event/Pershing Square Holdings Discussion**

We will hold our annual European Investor Event on June 18, 2012. The program will include a session on the portfolio and a detailed discussion of Pershing Square Holdings, Ltd. (PSH). The PSH discussion will be webcast to all investors who are unable to attend in person, and a replay will be available thereafter to investors who register for the webcast. If you have not already done so, please register as soon as possible at [www.persqevent.co.uk](http://www.persqevent.co.uk).

Also, please mark your calendar for our next quarterly conference call which will be on Tuesday, July 17, 2012 at 11am EDT.

Please feel free to contact the Investor Relations team if you have questions about any of the above.

Sincerely,

A handwritten signature in black ink, appearing to read 'William A. Ackman', with a long horizontal flourish extending to the right.

William A. Ackman

## **Additional Disclaimers and Notes to Performance Results**

The performance results shown on the first page of this letter are presented on a gross and net-of-fees basis and reflect the deduction of, among other things: management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any. Net performance includes the reinvestment of all dividends, interest, and capital gains; it assumes an investor that has been in the funds since their respective inception dates and participated in any “new issues.” 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 as stated herein. Performance data for 2012 is estimated and unaudited.

The inception date for Pershing Square, L.P. is January 1, 2004. The inception date for Pershing Square II, L.P. and Pershing Square International Ltd. is January 1, 2005. The performance data presented on the first page of this letter for the market indices under “since inception” is calculated from January 1, 2004.

The market indices shown on the first page of this letter have been selected for purposes of comparing the performance of an investment in the Pershing Square funds with certain well-known, broad-based equity benchmarks. The statistical data regarding the indices has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The indices are not subject to any of the fees or expenses to which the funds are subject. The funds are not restricted to investing in those securities which comprise any of these indices, their performance may or may not correlate to any of these indices and it should not be considered a proxy for any of these indices.

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