Pershing Square Holdings, Ltd.
2018 Annual Report

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Supplemental U.S. GAAP Disclosures

Disclosures

Company Overview

The Company

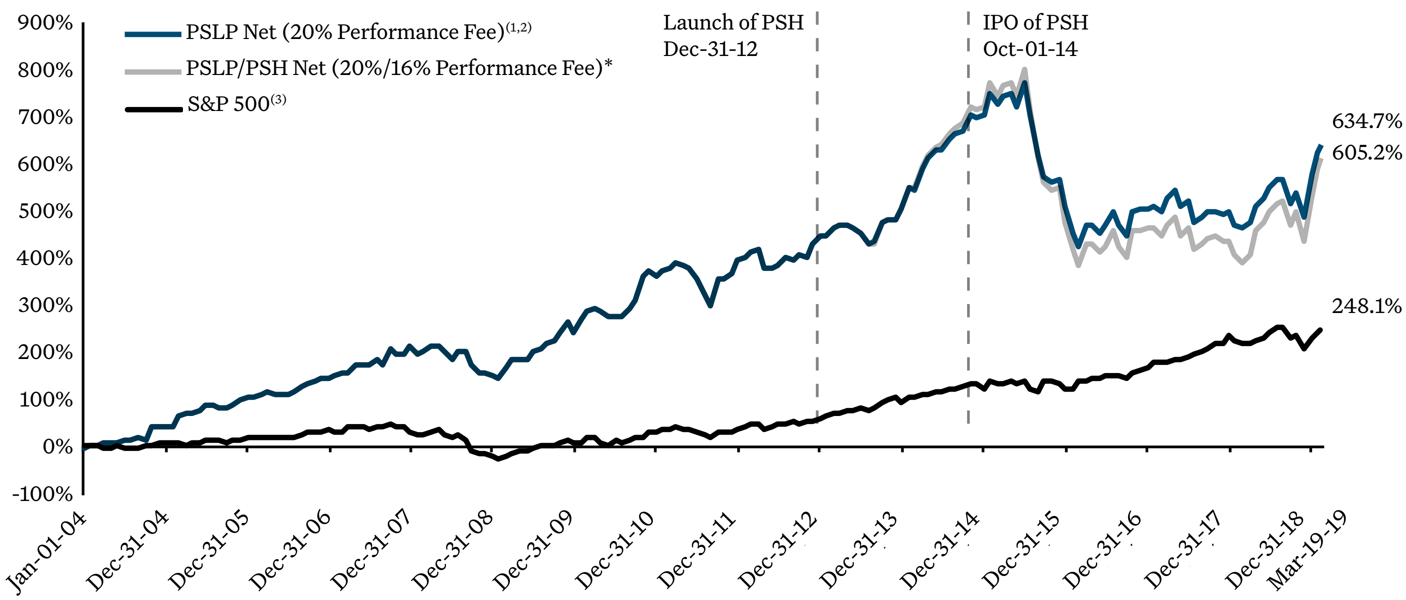
Pershing Square Holdings, Ltd. ("PSH") (LN:PSH) (LN:PSHD) (NA:PSH) is an investment holding company structured as a closed-ended fund that makes concentrated investments in publicly traded, principally North American-domiciled, companies. PSH's objective is to maximize its long-term compound annual rate of growth in intrinsic value per share.

PSH has appointed Pershing Square Capital Management, L.P. ("PSCM," the "Investment Manager" or "Pershing Square"), as its investment manager. The Investment Manager has responsibility, subject to the overall supervision of the Board of Directors, for the investment of PSH's assets and liabilities in accordance with the investment policy of PSH set forth on pages 30-31 of this Annual Report (the "Investment Policy").

PSCM, a Delaware limited partnership, was founded by William A. Ackman on January 1, 2004. PSH was incorporated with limited liability under the laws of the Bailiwick of Guernsey on February 2, 2012. It commenced operations on December 31, 2012 as a registered open-ended investment scheme, and on October 2, 2014 converted into a registered closed-ended investment scheme. Public Shares of PSH commenced trading on Euronext Amsterdam N.V. on October 13, 2014. On May 2, 2017, PSH's Public Shares were admitted to the Official List of the UK Listing Authority and commenced trading on the Premium Segment of the Main Market of the London Stock Exchange.

Company Performance

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



	PSLP/PSH Net Return*		PSLP Net Return[1,2]	S&P 500[3]
2004	42.6 %		42.6 %	10.9 %
2005	39.9 %		39.9 %	4.9 %
2006	22.5 %		22.5 %	15.8 %
2007	22.0 %		22.0 %	5.5 %
2008	(13.0)%	Pershing Square, L.P.	(13.0)%	(37.0)%
2009	40.6 %		40.6 %	26.5 %
2010	29.7 %		29.7 %	15.1 %
2011	(1.1)%		(1.1)%	2.1 %
2012	13.3 %		13.3 %	16.0 %
2013	9.6 %		9.7 %	32.4 %
2014	40.4 %		36.9 %	13.7 %
2015	(20.5)%		(16.2)%	1.4 %
2016	(13.5)%	Pershing Square Holdings, Ltd.	(9.6)%	11.9 %
2017	(4.0)%		(1.6)%	21.8 %
2018	(0.7)%		(1.2)%	(4.4)%
Year-to-date through March 19, 2019	31.9 %		25.3 %	13.5 %

2004–March 19, 2019[1,4]

Cumulative (Since Inception)	605.2 %	634.7 %	248.1 %
Compound Annual Return	13.7 %	14.0 %	8.5 %

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

Chairman's Statement

INTRODUCTION

In early 2018, the Investment Manager announced that it had taken significant steps to refocus its organization, and to address the subpar investment performance in previous years. I am pleased to report that these actions had a positive impact during 2018. PSH's Net Asset Value ("NAV") grew strongly for the majority of the year, until Q4 2018, when the share prices of PSH's portfolio companies declined along with the broader market leaving NAV slightly down for the year, albeit 370 bps ahead of the S&P 500 Index ("S&P 500").[i,ii] As the markets have recovered in 2019, PSH's NAV has substantially outperformed the S&P 500, which the Board believes attests to the quality of PSH's portfolio companies, the effectiveness of the Investment Manager's activist strategy and the validity of its investment theses.

Many investors today are increasingly allocating capital to passive investment strategies. The Investment Manager's long-term activist strategy is a key differentiator. The Investment Manager aims to invest in businesses that can be successful in a variety of macro-economic environments and generate superior returns for shareholders over the long term. The distinction is often less apparent when markets are rising, and can be more evident during periods of market turbulence.

INVESTMENT PERFORMANCE

During the year ended December 31, 2018, PSH's NAV declined -0.7%, ending the year at $17.30 per share. Over the same period, the S&P 500 declined -4.4%. Through September 30, 2018, PSH's NAV increased 15.8%, significantly outpacing the S&P 500 return of 10.6%. As a result of the market pullback in Q4 2018, PSH gave back all of its gains. From the beginning of the year to March 19, 2019, PSH's NAV has increased 31.9%, significantly outperforming the S&P 500, which returned 13.5% over the same period.[i,ii] I note that this excellent performance is due to strong earnings growth and positive developments across all of our portfolio companies. It would be impossible for every position in a large and diverse portfolio to outperform in a volatile market, but it can occur when an activist invests in a portfolio of 8-12 carefully selected companies.

INVESTMENT MANAGER

The Board has delegated the task of managing the Company's assets to the Investment Manager as set out in the Investment Management Agreement (the "IMA") entered into by PSH and PSCM at the inception of PSH. Although the Board does not make individual investment decisions, the Board is ultimately accountable for oversight of the Investment Manager.

The Investment Manager's strategy is predicated on primarily investing in mid/large-cap companies generating relatively predictable, growing free-cash-flows with formidable barriers to entry and a compelling value proposition. The Investment Manager seeks to invest in excellent businesses with opportunities for improvement and often positions itself to work directly with management and the Board to unlock long-term value. The Board was pleased to see the Investment Manager make four new investments in 2018 in alignment with these investment principles and constructively engage with existing portfolio companies.

All of PSH's current portfolio companies are listed in the United States or Canada. They are heavily exposed to the U.S. domestic market, but not immune to the global economy. The Investment Manager believes our portfolio companies are well placed to continue to grow earnings and generate positive cashflows, which should lead to an increase in their valuations over the long term.

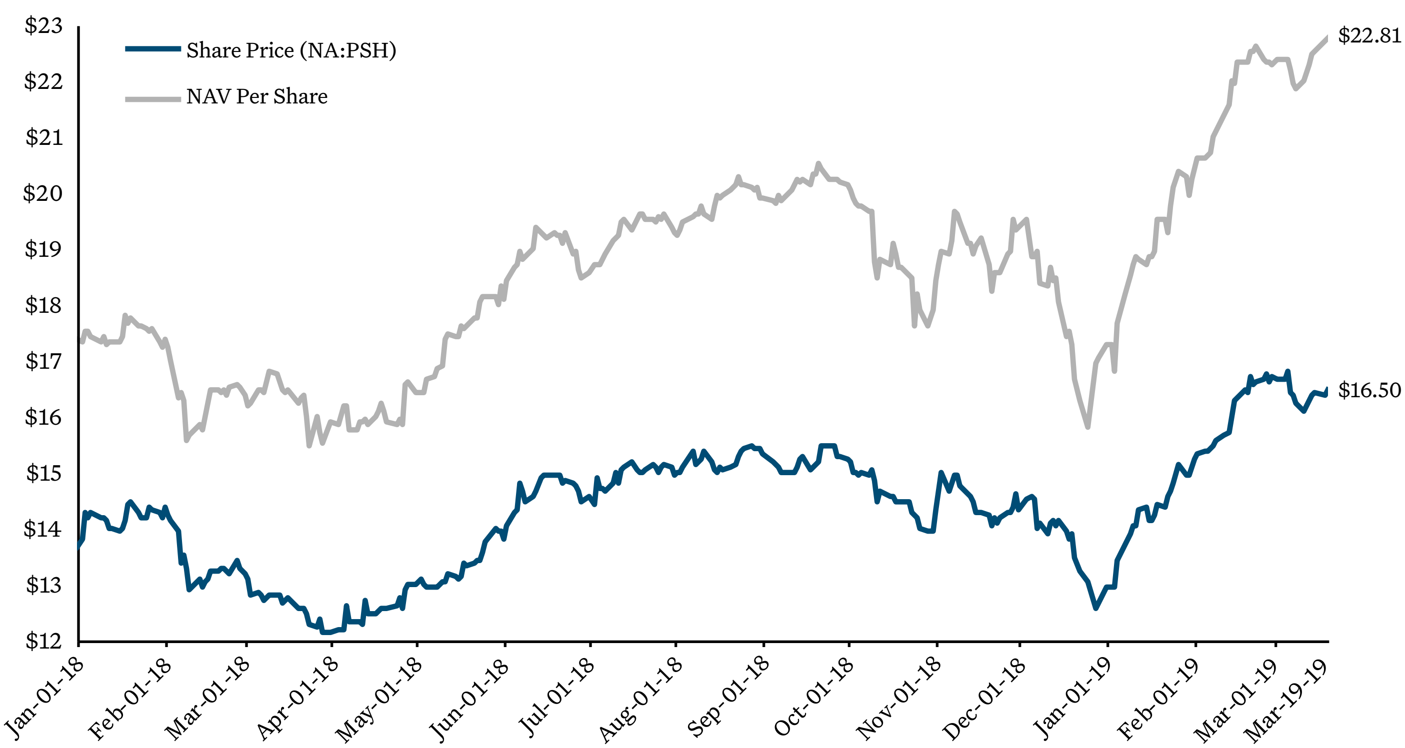
CORPORATE ACTIONS

In 2018, the Board initiated a number of corporate actions. The Company removed its 4.99% ownership limit, creating the potential for additional demand for shares, and completed a $300 million company tender in May 2018 at a price of $13.47 per share, a 20.5% discount to NAV (the "Company Tender"). The Company Tender reduced the public shares outstanding by 9.5% and generated 2.1% accretion to NAV. The Company also added a U.S. Dollar–denominated quotation on the LSE on May 29, 2018.

Following these corporate actions, senior executives and other affiliates of the Investment Manager purchased more than $520 million of Public Shares in the open market.[iii] The Board was supportive of these purchases as they further align the Investment Manager's interests with those of other shareholders.

The Board recognizes that these corporate actions and further investment in the Company by the Investment Manager's affiliates have had a minimal effect on the persistent discount to NAV at which the Public Shares trade. The Board and the Investment Manager believe that only a sustained period of positive investment performance will lead to a material reduction in the discount over time. The Board remains committed to reviewing the discount management options available to the Company and is prepared to take further corporate action to address the discount if the Board believes it will result in a long-term benefit for all shareholders.

PSH NAV vs. Trading Price (January 1, 2018 – March 19, 2019)



DIVIDEND

In February 2019, PSH announced that it will pay a quarterly dividend of $0.10 per Public Share, which represented a 2.5% yield based on the closing price of $15.70 per Public Share on the date of the announcement. As PSH invests primarily in S&P 500 companies, the PSH dividend has been set at a level which approximates the weighted average dividend yield of the S&P 500.[iv] The IMA has been amended to account for the effect of the dividend on fees paid to the Investment Manager so that the dividend is treated the way a return of capital is treated in the IMA.

The Board believes that the dividend expands the universe of potential PSH investors to those who prefer or require dividend-paying equities as part of their investment strategy. Additionally, it represents a return of capital to shareholders at NAV.

PSH BOND

The PSH Bonds ($1 billion aggregate principal amount of Senior Notes with a 5.5% per annum interest rate) have traded up from approximately par at year-end 2018 to $102 as of March 19, 2019. The Bonds are rated BBB+ with a negative outlook by Fitch and rated BBB with a stable outlook by S&P.

The terms of the Bonds do not allow PSH to incur debt beyond a total debt-to-capital ratio of 33.3% and restrict Company buybacks or dividends that would cause the ratio to be exceeded. The Company's total debt to capital ratio was 20.7%[v] as of December 31, 2018 and as the Company's assets have grown in 2019, the ratio has decreased to 16.5% as of March 19, 2019.

The Board and the Investment Manager continue to believe that the long-term leverage from the Bonds is prudent. While the leverage of the Bonds amplified losses in recent years, as the Company's performance has improved in 2019, it has accelerated the increase in NAV.

CORPORATE GOVERNANCE / BOARD

The Board made a number of enhancements to its governance in 2018, including the establishment of a Remuneration Committee, the adoption of a policy on Director tenure, and the appointment of a Senior Independent Director. In February 2019, the Board adopted a policy on Board diversity. These changes are discussed further in the Corporate Governance Report.

The Board continues to work effectively and diligently on behalf of all shareholders. The Board has benefitted greatly from the additional insight of Bronwyn Curtis and Richard Wohanka who were elected to the PSH Board in April 2018 as independent directors following Jonathan Kestenbaum's retirement. I would like to thank my fellow directors for all of their contributions throughout the year.

EVENTS: SHAREHOLDER PORTFOLIO UPDATE AND ANNUAL GENERAL MEETING

The Investment Manager presented a portfolio update to shareholders in London on February 13, 2019. Slides from that presentation are available on PSH's website: pershingsquareholdings.com.

PSH's 2019 Annual General Meeting will be held in Guernsey on May 7, 2019. Details of the event will be posted on pershingsquareholdings.com. I will report to you on the first half of 2019 in August 2019, and the Investment Manager will keep you informed of any significant developments in the portfolio before then, when appropriate.

/s/ Anne Farlow
Anne Farlow
Chairman of the Board
March 25, 2019

Investment Manager's Report

LETTER TO SHAREHOLDERS

To the Shareholders of Pershing Square Holdings, Ltd.:

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

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

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

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

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

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

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

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

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

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

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

What is PSH's long-term goal?

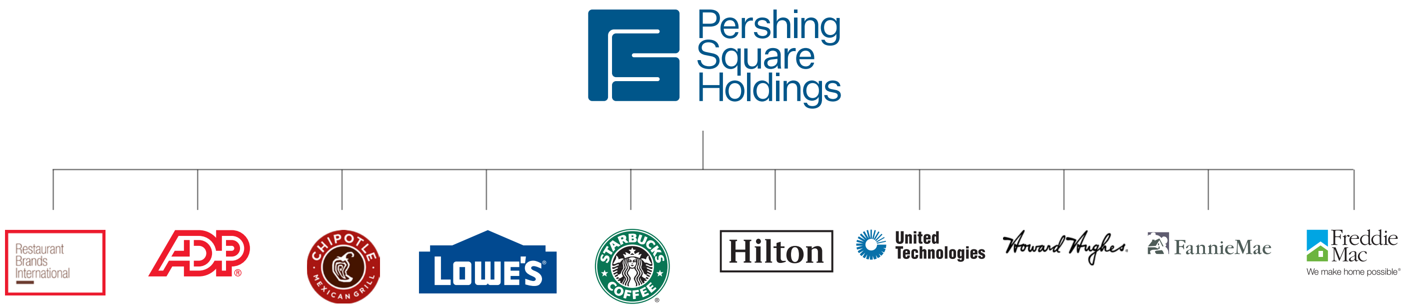
Our long-term goal is to maximize the long-term compound annual rate of growth in PSH's intrinsic value per share, which we estimate conservatively to be our net asset value or book value per share. Net asset value and book value are the same for PSH because our assets are marked to market in our financial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

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

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

How should one think about PSH?

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



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

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

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

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

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

I have often been asked why we haven't attempted to take businesses private so that 100% of the benefits would inure to Pershing Square rather than to all of the shareholders. While we would not rule out the purchase of control of one of our companies (greater stability in our capital base makes this more possible and therefore more likely), (1) we are happy to share any value we have helped create with other shareholders; (2) it is rare that one of our portfolio companies is available for sale; (3) going private transactions are inherently highly competitive, typically require the use of large amounts of leverage, and suffer from the so-called "winner's curse;" and (4) we have found a strategy that works, so we intend to stick to it. Ultimately, it is the other shareholders' support that has enabled us to achieve sufficient influence to effectuate change, and we are extremely grateful for that support. We believe, therefore, that it is entirely appropriate for the shareholders who have supported us to have the opportunity to share the rewards that we, with their support, have helped generate.

What kind of businesses does PSH own?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Is PSH undervalued?

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

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

Would more share buybacks help?

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

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

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

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

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

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

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

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

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

Why did we introduce a quarterly dividend?

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

* * * * * * * * * *

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

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

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

Sincerely,

William A. Ackman

PORTFOLIO UPDATE

Performance Attribution

Below are the contributors and detractors to gross performance of the portfolio of the Company for 2018 and year-to-date 2019[10].

January 1, 2018 – December 31, 2018	
Chipotle Mexican Grill, Inc.	6.2 %
Automatic Data Processing, Inc.	5.5 %
Starbucks Corporation	3.3 %
Accretion (Relating to Share Buyback and Company Tender)	2.1 %
Lowe's Companies, Inc.	0.7 %
Federal Home Loan Mortgage Corporation	(1.6)%
United Technologies Corporation	(2.2)%
Restaurant Brands International Inc.	(2.2)%
Federal National Mortgage Association	(3.0)%
Herbalife Ltd.	(3.3)%
The Howard Hughes Corporation	(3.6)%
All Other Positions and Other Income and Expense	(1.2)%
Net Contributors and Detractors	**0.7 %**

January 1, 2019 – March 19, 2019	
Chipotle Mexican Grill, Inc.	8.5 %
Restaurant Brands International Inc.	4.2 %
Automatic Data Processing, Inc.	3.5 %
Federal National Mortgage Association	3.3 %
Hilton Worldwide Holdings Inc.	3.1 %
United Technologies Corporation	2.1 %
Lowe's Companies Inc.	2.1 %
Federal Home Loan Mortgage Corporation	1.8 %
Starbucks Corporation	1.8 %
The Howard Hughes Corporation	1.0 %
Platform Specialty Products Corporation	1.0 %
Other Income and Expense	(0.3)%
Net Contributors and Detractors	**32.1 %**

Positions with contributions or detractions to performance of 50 basis points or more are listed above separately, while positions with contributions or detractions to performance of less than 50 basis points are aggregated.
Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying endnotes and important disclaimers on pages 98–100.

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

Chipotle Mexican Grill ("CMG")

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

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

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

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

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

Automatic Data Processing, Inc. ("ADP")

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

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

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

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

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

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

Restaurant Brands International ("QSR")

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

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

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

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

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

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

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

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

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

Starbucks ("SBUX")

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

Despite an enviable long-term track record, Starbucks' stock was down modestly over the three years prior to our investment while earnings grew 50% over that timeframe, allowing us to acquire Starbucks shares at a 25% discount to the company's historical average valuation multiple of 26 times forward earnings. We believe that the reduced valuation was driven by concerns regarding a slowdown in U.S. same-store sales, the perceived risk to its achieving its long-term financial growth targets, and uncertainty due to the company's senior leadership transition and management turnover.

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

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

Hilton Worldwide Holdings Inc. ("HLT")

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

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

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

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

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

United Technologies ("UTX")

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

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

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

The Howard Hughes Corporation ("HHC")

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

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

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

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

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

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

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

Exited Positions

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

PUBLIC ACTIVIST INVESTMENTS SINCE INCEPTION[11]

Below are all of the companies, both long and short, in which Pershing Square has taken a public, active role in seeking to effectuate change.

Long Activist Positions

Wendy's	Sears	Plains Resources	McDonald's	Sears Canada	Borders
2004	2004	2004	2005	2005	2006
Ceridian	Target	GGP	Longs Drugs	EMC²	Landry's Restaurants, Inc.
2006	2007	2008	2008	2008	2009
Howard Hughes	Fortune Brands	Beam	Alexander & Baldwin, Inc.	jcp	Canadian Pacific
2010	2010	2010	2010	2010	2011
Restaurant Brands International	P&G	Platform Specialty Products Corporation	Air Products	FannieMae	Freddie Mac We make home possible
2011	2012	2013	2013	2013	2013
zoetis	Allergan	Valeant Pharmaceuticals North America	Nomad Foods	Mondelēz International	Chipotle
2014	2014	2015	2015	2015	2016
ADP	Starbucks Coffee	United Technologies	Lowe's	Hilton	
2017	2018	2018	2018	2018	

Short Activist Positions*

mbia Wisdom in Action	Ambac	FannieMae	Freddie Mac We make home possible	FSA	Herbalife
2004	2005	2007	2007	2007	2012

*Short Activist Positions includes options and other instruments that provide short economic exposure

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

Principal Risks and Uncertainties

The Board has ultimate responsibility for the Company's risk management. The Board believes that identifying the inherent risks related to the business and operations of the Company and developing an effective strategy to manage and mitigate these risks is crucial to the ongoing viability of the Company. Accordingly, the Board, with the input of the Investment Manager, has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

The Board has identified a number of risks specific to the investment activities, structure and operations of the Company, as well as risks relating to general market conditions. The Board and the Investment Manager have adopted procedures and controls for the ongoing assessment, monitoring and mitigation of material risks and the Board reviews the management of these risks at each quarterly Board meeting.

The Board believes that the risks described below are the principal risks faced by the Company. This is not intended to be a complete list of all risks. Please refer to the Company's Prospectus, available on the Company's website (pershingsquareholdings.com), for a more complete description of the risks applicable to the Company. Additional information related to risk management is provided in Note 13.

Risk	Description	Mitigating Factors
Investment Risk	The Company's investments are exposed to the risk of the loss of capital. There is no assurance that the Company's portfolio investments will increase in value or that the Company will not incur significant losses. The Company's strategy may not be successful and shareholders may lose all, or substantially all, of their investment in the Company.	The Investment Manager makes investment decisions in alignment with its core investment principles as described in the Company's Investment Policy. The Investment Manager is an experienced investor and performs extensive research prior to investment, along with ongoing monitoring of the position once held in the Company's portfolio. Senior executives and other investment personnel of the Investment Manager have aligned their interests with the Company's shareholders by making a substantial investment in the Company.
Investment Manager's Authority	The Investment Manager has broad investment authority in executing the Company's strategy and may use whatever investment techniques it believes are suitable for the Company, including novel or untested approaches. In addition, the Company's strategy depends on the ability of the Investment Manager to successfully identify attractive investment opportunities.	The Board receives a report from the Investment Manager at each quarterly Board meeting or more frequently, as necessary, on developments and risks relating to existing and new portfolio positions, activist engagements, financial instruments used in the portfolio and the portfolio composition as a whole. The Board receives a daily summary of media reports regarding the activities of the Investment Manager and the portfolio companies. Senior executives and other investment personnel of the Investment Manager have aligned their interests with the Company's shareholders by making a substantial investment in the Company.

Risk	Description	Mitigating Factors
Portfolio Concentration	The Investment Manager may invest a significant proportion of the Company's capital in a limited number of investments, subject to the Company's Investment Policy. Because the Company's portfolio is highly concentrated and primarily invested in public equities (or derivatives referencing public equities), it is sensitive to fluctuations in equity prices and investment results over time may be volatile. A concentrated portfolio also exacerbates the risk that a loss in any one position could have a material adverse impact on the Company's assets.	The Investment Manager performs extensive research prior to investment, along with ongoing monitoring of the position once held in the Company's portfolio. The Investment Manager is mindful of sector and industry exposures and other fundamental correlations between businesses in which the Company invests. The Board reviews portfolio concentration and receives a detailed overview of the portfolio positions no less than quarterly, but more frequently as necessary. Senior executives and other investment personnel of the Investment Manager have aligned their interests with the Company's shareholders by making a substantial investment in the Company. Investments by the Company in, or giving exposure to, the securities of any one issuer may not, in the aggregate, represent more than 25% of the Company's gross assets, measured at the time of making the investment.
Activist Strategies	The Investment Manager may pursue an activist role with respect to an investment, which may involve substantial costs in time, resources and capital and which may involve litigation or opposition of the target company's management, board or shareholders.	The Investment Manager has significant experience conducting activist campaigns. The Board reviews the Investment Manager's activist engagements at each Board meeting, or more frequently as necessary.
Short Selling	From time to time, the Company may enter into short positions which theoretically could result in unlimited loss.	The Investment Manager enters into these positions infrequently, may use CDS or other derivative positions to obtain economic short exposure and relies on extensive due diligence prior to putting on a short position.
Use of Indebtedness	The Company has incurred indebtedness as a result of issuing $1 billion in Senior Notes at 5.5% due 2022 (the "Bonds"), and may incur additional indebtedness in the future, provided that it complies with certain restrictive covenants contained in the Bonds' Indenture. Such leverage may have the effect of increasing losses. The Company may use derivatives, including equity options, in order to obtain security-specific non-recourse leverage in an effort to reduce the capital commitment to a specific investment, while potentially enhancing the returns on the capital invested in that investment.	The Board regularly receives information regarding the Bonds and the Company's portfolio leverage, if any, at each quarterly Board meeting. Unlike margin debt, the Bonds do not have mark-to-market covenants (which could require forced sales when equity prices decline). The Investment Manager generally does not believe in the use of a material amount of margin leverage because of the potential risk of forced sales at inferior prices in the event of short-term declines in security prices in a margined portfolio.
Regulatory Risk	Regulatory risk can negatively impact the Company in a number of ways. For example, changes in laws or regulations, or a failure to comply with these, could have a detrimental impact on the Company's ability to freely acquire and dispose of certain securities or deploy certain investment techniques.	Prior to initiating a position, the Investment Manager considers the possible legal and regulatory issues that could impact its ability to achieve the objective with respect to such position. The Investment Manager's legal and compliance team monitors regulatory changes on an ongoing basis. The Board is apprised of any regulatory inquiries and material regulatory developments.

Risk	Description	Mitigating Factors
Reputational Risk	Reputational damage to the Investment Manager and the Company as a result of negative publicity could impair the Investment Manager's ability to effect its strategy on behalf of the Company.	The Investment Manager's Director of Communications and external public relations firms monitor media coverage and actively engage with media sources as necessary. Investment Manager personnel and the Board receive media clips daily to monitor public sentiment of the Company's activities. Company announcements, other than routine or portfolio-related announcements, are generally approved by the Chairman and Ms. Curtis prior to their release. The Board receives an update on media-related activity on a quarterly basis and considers measures to address concerns as they arise.
Business Continuity	The Investment Manager is dependent on William Ackman to provide its investment advisory services to the Company as he has ultimate discretion with respect to all investment decisions.	The investment team and other senior personnel of the Investment Manager are experienced, longstanding employees. The Board has reviewed the Investment Manager's succession plan and has deemed it to be satisfactory. If a key man event occurs prior to October 2021, there are key man provisions in place in the Company's Articles of Incorporation that will trigger a continuation vote.
NAV Discount	The Public Shares of the Company have in the past, currently and may in the future trade at a significant discount to NAV.	For a summary of actions the Company has taken to address the discount, please see "Discount to NAV" in the Report of the Directors The Board monitors the trading activity of the shares on a regular basis and addresses the discount to NAV at its regular quarterly meetings. The Company has also retained advisers to maintain regular contact with existing and potential shareholders and to consider other potential measures to reduce the discount of share price to NAV.
Tax Risk	U.S. tax regulations would cause the Company to incur negative tax consequences if the Company invests in U.S. Real Property Holding Companies and other tax regulations may restrict the types of investments the Company may make without potentially incurring adverse consequences. Changes to the tax laws of, or practice in a tax jurisdiction affecting the Company could adversely affect the value of the Company's investments and decrease the post-tax returns to shareholders. Investments in the Company may not be tax efficient for certain shareholders. The Investment Manager may make an investment decision which is tax efficient for some shareholders but which may result in adverse tax or economic consequences for other shareholders.	The Investment Manager may obtain economic exposure to certain types of investments through derivative instruments such as total return swaps. The Company aims to conduct its affairs in such a manner as to avoid adverse tax consequences and engages experienced tax advisors as appropriate. Investment decisions of the Investment Manager are based primarily upon economic, not tax, considerations.

Risk	Description	Mitigating Factors
Market Risk	Adverse changes affecting the global financial markets and economy as a whole may have a material negative impact on the performance of the Company's investments or may cause the prices of financial and derivative instruments in which the Company invests to be highly volatile.	In order to mitigate market-related downside risk, the Company may acquire put options, short market indices, baskets of securities and/or purchase credit default swaps, but the Company is not committed to maintaining market hedges at any time.
Currency Risk	The value of the Company's investments denominated in non-U.S. currencies may be adversely affected by fluctuations in currency exchange rates.	The Company may hedge its foreign currency exposure associated with these investments by entering into forward exchange contracts and currency options, which offset increases or decreases in the fair value of the Company's non-USD denominated investments.
Portfolio Liquidity Risk	The Company may be restricted from trading in certain securities in its portfolio for which the Investment Manager has board representation or for contractual, regulatory or other reasons. Stressful market conditions may prevent the Company from having sufficient liquidity to meet its liabilities when due.	Securities subject to restrictions on trading may be sold during open trading windows or pursuant to block trades or automatic trading plans. The Company invests primarily in liquid, large-capitalization securities which are readily convertible to cash under normal market conditions. The Investment Manager actively manages the Company's cash and cash equivalents to ensure, as much as possible, that the Company will have sufficient liquidity under both normal and stressful market conditions.
Counterparty Credit Risk	The Company is subject to the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that is entered into with the Company, resulting in a financial loss to the Company.	The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The Investment Manager negotiates its International Swaps and Derivatives Association ("ISDA") agreements to include bilateral collateral arrangements and, in certain cases, tri-party agreements where collateral is held by a third party custodian. Thereafter, the Investment Manager monitors exposure, performs reconciliations, and posts/ receives cash or U.S. Treasury collateral to/ from each of the Company's counterparties on a daily basis. The Investment Manager also reviews credit ratings reports on its counterparties weekly. From time to time, the Company purchases credit default swap contracts on the Company's counterparties as a form of credit protection.

Directors

ANNE FARLOW

Independent Director
Chairman of the Board
Chairman of the Nomination Committee

Ms Farlow, a Hong Kong resident, has been an independent Director of the Company since 2014 and is an experienced private equity investment professional and non-executive director. Since 2005, she has been an active investor in and non-executive director of various unlisted companies. From 2000 to 2005, she was a director of Providence Equity Partners in London, and was one of the partners responsible for investing a $2.8 billion fund in telecom and media companies in Europe. From 1992 to 2000, she was a director of Electra Partners, and was based in London from 1992 to 1996 and Hong Kong from 1996 to 2000. Prior to working in private equity, Ms Farlow worked as a banker for Morgan Stanley in New York, and as a management consultant for Bain and Company in London, Sydney and Jakarta. Ms Farlow graduated from Cambridge University with a MA in engineering in 1986 and a MEng in chemical engineering in 1987. She obtained an MBA from Harvard Business School in 1991.

RICHARD BATTEY

Independent Director
Chairman of the Audit Committee

Mr Battey, a Guernsey resident, has been an independent Director of the Company since 2012 and also serves as a non-executive director of a number of investment companies and funds, of which Princess Private Equity Holding Limited, Better Capital PCC Limited and NB Global Floating Rate Income Fund Limited are listed. From 2005 to 2006, Mr Battey was Chief Financial Officer of CanArgo Energy Corporation. Mr Battey also worked for the Schroder Group from 1977 to 2005, first in London with J. Henry Schroder Wagg & Co. Limited and Schroder Investment Management, then in Guernsey as finance director and chief operating officer of Schroders (C.I.) Limited, and retired as a director of his last Schroder Group Guernsey company in 2008. Mr Battey received his Bachelor of Economics from Trent Polytechnic Nottingham in 1973 and is a chartered accountant having qualified with Baker Sutton & Co. in 1977.

Directors

WILLIAM SCOTT

Independent Director
Chairman of the Management Engagement Committee

Mr Scott, a Guernsey resident, has been an independent Director of the Company since 2012. He also currently serves as independent non-executive director of a number of investment companies and funds, of which Axiom European Financial Debt Fund Limited is listed on the Premium Segment of the LSE. He is also a director of The Flight and Partners Recovery Fund Limited and a number of funds sponsored by Man Group (Absolute Alpha Fund PCC Limited and MAN AHL Diversified PCC Limited) which are listed on The International Stock Exchange. Mr Scott worked as senior vice president with FRM Investment Management Limited, now part of Man Group plc, from 2003 to 2004; was a director at Rea Brothers (which became part of the Close Brothers group in 1999) from 1989 to 2002 and was assistant investment manager with the London Residuary Body Superannuation Scheme from 1987 to 1989. Mr Scott graduated from the University of Edinburgh in 1982 and is a chartered accountant having qualified with Arthur Young (now Ernst & Young LLP) in 1987. He also holds the Securities Institute Diploma and is a chartered fellow of the Chartered Institute for Securities & Investment and a chartered wealth manager.

NICHOLAS BOTTA

Mr Botta, a U.S. resident, has been a Director of the Company since 2012. He is also a director of Pershing Square International, Ltd. Until March 1, 2017, when Mr Botta became President of the Investment Manager, he was the Investment Manager's Chief Financial Officer. He also worked as controller and then as Chief Financial Officer of Gotham Partners from 2000 to 2003. From 1997 to 2000, Mr Botta was a senior auditor at Deloitte & Touche in its securities group. He was also a senior accountant from 1995 to 1997 for Richard A. Eisner & Co., LLP. Mr Botta received his Bachelor of Accounting from Bernard Baruch College in 1996. Mr Botta is a certified public accountant.

Directors

BRONWYN CURTIS, OBE

Senior Independent Director

Ms Curtis, a U.K. resident, has been an independent Director of the Company since April 2018. Ms Curtis is a global financial economist who has held senior executive positions in both the financial and media sectors. She currently serves as a non-executive director of a number of institutions including the U.K. Office of Budget Responsibility, JP Morgan Asian Investment Trust, Mercator Media, Australia-United Kingdom Chamber of Commerce, and Scottish American Investment Co. She has also been a Governor at the London School of Economics. Ms Curtis held several senior positions at HSBC from 2008 to 2012 where she managed the global research operations and portfolio including the economic, fixed income, foreign exchange and equity products. From 1999 to 2006, Ms. Curtis was the Head of European Broadcast at Bloomberg LP, where she was responsible for production and editorial for its 24-hour business and financial news coverage. Prior to joining Bloomberg, she held positions at Nomura International and Deutsche Bank. Ms Curtis graduated from the London School of Economics with a Masters in Economics in 1974.

RICHARD WOHANKA

Independent Director

Chairman of the Remuneration Committee

Mr Wohanka, a U.K. resident, has been an independent Director of the Company since April 2018. He currently serves as a non-executive director of BTG, Union Bancaire Privée Japan, Embark Group, and Nuclear Liabilities Fund, and is a trustee of the James Neill Pension Fund and the Pension Super Fund. He previously served as a non-executive director of Julius Baer International and Old Mutual Global Investors. Mr Wohanka was the Chief Executive Officer at Union Bancaire Privée Asset Management from 2009 to 2012. Prior to that, he was the Chief Executive of Fortis Investments from 2001 to 2009 and Chief Executive of West LB Asset Management from 1998 to 2001. He joined Baring Asset Management in 1996 and became the Chief Executive Officer of the Institutional and Mutual Fund Division in 1997. He worked at Banque Paribas from 1983 to 1996, where he was the Chief Executive of Paribas Asset Management and a Banque Paribas Board Member from 1993 to 1996, and in the Asset Management division from 1990 to 1993. He held various positions in Investment Banking from 1983 to 1990. Mr Wohanka was also employed at European Banking Corporation from 1975 to 1983. He graduated from Cambridge University with a BA in History in 1974 and subsequently studied modern economic history at Harvard University as a Kennedy scholar.

Report of the Directors

We present below the Annual Report and Financial Statements of the Company for the year ended December 31, 2018.

PRINCIPAL ACTIVITY

The Company was incorporated in Guernsey, Channel Islands on February 2, 2012. It became a registered open-ended investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Registered Collective Investment Scheme Rules 2008 (issued by the GFSC) on June 27, 2012, and commenced operations on December 31, 2012. On October 2, 2014, the GFSC approved the conversion of the Company into a registered closed-ended investment scheme under the Protection of Investors Law and the 2008 Rules.

Please refer to Note 11 for further information on the various classes of shares (any reference to "Note" herein shall refer to the Notes to the Financial Statements).

INVESTMENT POLICY

The Company's investment objective is to preserve capital and seek maximum, long-term capital appreciation commensurate with reasonable risk. For these purposes, risk is defined as the probability of permanent loss of capital, rather than price volatility.

In its value approach to investing, the Company seeks to invest in long (and occasionally short) investment opportunities that the Investment Manager believes exhibit significant valuation discrepancies between current trading prices and intrinsic business (or net asset) value, often with a catalyst for value recognition.

The Company's investments may include both publicly traded and privately placed securities of public issuers as well as publicly traded securities of private issuers. The Company may make investments in the debt securities of a private company, provided that there is an observable market price for such debt securities.

The Company will not make an initial investment in the equity of companies whose securities are not publicly traded (i.e., private equity) but it is possible that, in limited circumstances, public companies in which the Company has invested may later be taken private and the Company may make additional investments in the equity or debt of those companies.

The Company may invest in long and short positions in equity or debt securities of U.S. and non-U.S. issuers (including securities convertible into equity or debt securities); distressed securities, rights, options and warrants; bonds, notes and equity and debt indices; swaps (including equity, foreign exchange, interest rate, commodity and credit-default swaps), swaptions, and other derivatives; instruments such as futures contracts, foreign currency, forward contracts on stock indices and structured equity or fixed-income products (including without limitation, asset-backed securities, mortgage-backed securities, mezzanine loans, commercial loans, mortgages and bank debt); exchange traded funds and any other financial instruments the Investment Manager believes will achieve the Company's investment objective. The Company may invest in securities sold pursuant to initial public offerings. Investments in options on financial indices may be used to establish or increase long or short positions or to hedge the Company's investments. In order to mitigate market-related downside risk, the Company may acquire put options, short market indices, baskets of securities and/or purchase credit-default swaps but is not committed to maintaining market hedges at any time.

A substantial majority of the Company's portfolio is typically allocated to 8 to 12 core holdings usually comprised of highly liquid, listed mid-to-large cap North American companies.

So long as the Company relies on certain exemptions from investment company status under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"), the Company will not purchase more than 3% of the outstanding voting securities of any SEC-registered investment company. The Company will not invest more than 10%, in aggregate, of its total assets in other UK-listed closed-ended investment funds, unless such other closed-ended investment funds themselves have published investment policies to invest no more than 15% of their total assets in other UK-listed closed-ended investment funds. In addition, investments by the Company in, or giving exposure to, the securities of any one issuer may not, in the aggregate, represent more than 25% of the Company's gross assets, measured at the time of making the investment.

The Company generally implements substantially similar investment objectives, policies and strategies as the other investment funds managed by the Investment Manager and its affiliates. Allocation of investment opportunities and rebalancing or internal "cross" transactions are typically made on a pro-rata basis. However, the Investment Manager may abstain from effecting a cross transaction or only effect a partial cross transaction if it determines, in its sole discretion, that a cross transaction, or a portion thereof, is not in the best interests of a fund (for example, because a security or financial instrument is held by such fund in the appropriate ratio relative to its adjusted net asset value, or because a security or financial instrument should be divested, in whole or in part, by the other funds) or as a result of tax, regulatory, risk or other considerations.

The Company may hold its assets in cash, cash equivalents and/or U.S. Treasurys pending the identification of new investment opportunities by the Investment Manager. There is no limit on the amount of the Company's assets that may be held in cash or cash equivalent investments at any time.

The Board has adopted a policy pursuant to which the borrowing ratio of the Company, defined for this purpose as the ratio of the aggregate principal amount of all borrowed money (including margin loans) to total assets (pursuant to the latest annual or half-yearly Financial Statements of the Company), shall in no event exceed 50% at the time of incurrence of any borrowing or drawdown. The Board may amend the Company's borrowing policy from time to time, although the Board may not increase or decrease the Company's maximum borrowing ratio without the prior consent of the Investment Manager. This borrowing policy does not apply to and does not limit the leverage inherent in the use of derivative instruments.

The Company may use derivatives, including equity options, in order to obtain security-specific, non-recourse leverage in an effort to reduce the capital commitment to a specific investment, while potentially enhancing the returns on the capital invested in that investment. In addition, the Company may invest in co-investment vehicles which may also employ equity options.

The Company may also use derivatives, such as equity and credit derivatives and put options, to achieve a synthetic short position in a company without exposing the Company to some of the typical risks of short selling, which include the possibility of unlimited losses and the risks associated with maintaining a stock borrow. The Company generally does not use total return swaps to obtain leverage, but rather to manage regulatory, tax, legal or other issues.

Any material change to this Investment Policy will require approval by a special resolution of the holders of the Public Shares.

RESULTS AND NAV

The Company had a loss attributable to all shareholders for the year ended December 31, 2018 of $109 million (2017: loss of $197 million). The net assets attributable to all shareholders at December 31, 2018 were $3.83 billion (2017: $4.24 billion). For the Company's returns, please see the Company Performance and Financial Highlights sections on pages 2 and 94, respectively.

The Company announces the monthly and weekly NAV and performance of its Public Shares to the Euronext Amsterdam and LSE markets and publishes this information on the Company's website (pershingsquareholdings.com). In addition, transparency reports are published on the Company's website.

The Company released interim financial statements on August 9, 2018 relating to the first half of 2018. The Company intends to release interim financial statements for the first half of 2019 in the third quarter.

DISCOUNT TO NAV

The Company's Public Shares continued to trade at a substantial discount to NAV during 2018. The Board monitors the trading activity of the Public Shares on a regular basis and pays particular attention to the discount. The Board and the Investment Manager believe that sustained positive investment performance is the most effective action to reduce the discount to NAV at which the Public Shares trade. The Board remains committed to soliciting shareholder feedback regarding the discount and to reviewing the discount management options available to the Company, taking into account the circumstances of the Company's strategy and capital structure.

The Board took several actions in 2017 in an effort to increase liquidity and narrow the discount, including the admission of the Company's Public Shares to the Official List of the UK Listing Authority and trading on the Main Market of the LSE and repurchases of 5,474,173 Public Shares from May 2, 2017 to January 2, 2018 pursuant to a share buyback program. The Company's Public Shares also qualified for inclusion in the FTSE 250 and FTSE All-Share indices in June 2017.

In order to take advantage of the discount for the benefit of long-term shareholders of the Company and to provide liquidity for shareholders seeking to sell their holdings, the Company sought and received shareholder approval at the 2018 Annual General Meeting to conduct a Company Tender to purchase up to an aggregate amount of $300 million of its Public Shares. The Company announced the tender offer on April 25, 2018 and on May 10, 2018 purchased and cancelled 22,271,714 Public Shares at a price of $13.47 per Public Share for a total of $299,999,988. The price of the Company Tender represented a 20.5% discount to the NAV per Share as of May 9, 2018. The Company Tender caused the NAV per share to accrete by 2.1% and reduced the number of shares not owned by affiliates of the Investment Manager (the "effective free float") by 9.5%. The Company also added a US Dollar–denominated quotation on the LSE on May 29, 2018.

The Company intends to propose that shareholders renew its general share buyback authority at the 2019 Annual General Meeting of the Company (the "AGM"), to allow the Company to engage in share buybacks up to a maximum of 14.99% of the Public Shares in issue. If approved by shareholders and depending on market conditions, the Company's available capital and other considerations, the Company may decide to utilize the share buyback authority to make further acquisitions of Public Shares in the market.

The Board has been pleased to see further investment in the Company by senior executives of the Investment Manager in 2018. As a result of their purchases of Public Shares in 2018 and including previously acquired shares, Mr. Ackman, Mr. Botta and other affiliates of PSCM, if their holdings of Management Shares were converted to Public Shares, would own approximately 44.5 million Public Shares or 20.1% of the Company as of December 31, 2018. When combined with the effect of the Company Tender, these purchases had the effect of reducing the Company's effective free float by 24.5% since May 2018.

On February 13, 2019, the Company announced that it had initiated a quarterly dividend of $0.10 per Public Share, representing a yield of 2.5% based on the closing price of $15.70 of PSH Public Shares on February 12, 2019. The Board believes that instituting a quarterly dividend will attract shareholders who prefer or require dividend-paying equities and that expanding the Company's investor base may over time, together with improved performance, assist in narrowing the discount. Please see "Dividend" below for further details regarding the dividend.

BOND OFFERING

On June 26, 2015, the Company issued at par $1 billion in Senior Notes at 5.5% due 2022 (the "Bonds"). The Bonds will mature at par on July 15, 2022 and pay a fixed rate interest coupon of 5.5% per annum, which is paid semi-annually. The Bonds are listed on the Irish Stock Exchange.

DIVIDEND

On February 13, 2019, the Company announced that it had initiated a quarterly interim dividend of $0.10 per Public Share, representing a yield of 2.5% based on the closing price of $15.70 of PSH Public Shares on February 12, 2019. A proportionate quarterly dividend will be paid per Management Share and the Special Voting Share, based on their respective net asset values per share. Dividends will be paid in US Dollars unless a shareholder elects to be paid in

GBP. Shareholders may also elect to reinvest cash dividends into Public Shares through a dividend reinvestment program administered by an affiliate of the Company's registrar. Further information regarding the dividend, including the anticipated payment schedule and how to make these elections, is available at pershingsquareholdings.com/psh-dividend-information.

Each dividend is subject to a determination that after the payment of the dividend the Company will meet the solvency requirements under Guernsey law and the Company's total indebtedness will be less than one third of the Company's total capital. The Board may determine to modify or cease paying the dividend in the future.

The Company's Investment Management Agreement (the "IMA") has been amended to account for the effect of a dividend on fees paid to the Investment Manager. Further details regarding this amendment are included in Note 16.

In the year ended December 31, 2018, the Company did not pay a dividend (2017: $ nil).

DIRECTORS

The present members of the Board, all of whom are non-executive Directors, are listed on pages 27–29. Further information regarding the Board is provided in the Corporate Governance Report. On February 12, 2018, Jonathan Kestenbaum retired as a non-executive Director of the Company. Jonathan Kestenbaum had served as an independent non-executive Director of the Company since 2014. At the April 24, 2018 AGM, the shareholders elected two new independent non-executive Directors, Bronwyn Curtis and Richard Wohanka, to the Board.

The Company maintains directors and officer's liability insurance in relation to the actions of the Directors on behalf of the Company. Information regarding Directors' remuneration and ownership in the Company is set out in the Directors' Remuneration Report on page 37.

MATERIAL CONTRACTS

The Company's material contracts are with:

- PSCM, the Investment Manager to the Company. PSCM receives a quarterly management fee and may receive a performance fee from the Company as described more fully in Note 15;
- Elysium Fund Management Limited, the Company's Administrator and Morgan Stanley Fund Services (Bermuda) Ltd., the Sub-Administrator. The Administrator provides the Company with administration services, including, among other things, the maintenance of the Company's accounting and statutory records. The Administrator has delegated certain of these services to the Sub-Administrator, including the computation of the Company's NAV;
- Link Market Services Limited ("Link"), the Company's registrar. The Company has also appointed an affiliate of Link to administer the Company's dividend reinvestment program.
- Goldman Sachs & Co and UBS Securities LLC, the Company's Prime Brokers and custodians for the Company;
- Fidante Capital plc, a corporate broker for the Company; and
- Jefferies International Limited ("Jefferies"), a corporate broker for the Company and the Company's adviser for the Company Tender. Jefferies has also served as the Company's buyback agent and was its sponsor in connection with the LSE listing.

The Board, and where appropriate the Investment Manager, monitor the performance of these service providers informally throughout the year. In addition, the Investment Manager, the material service providers listed above and certain other providers of professional services to the Company were reviewed formally by the Management Engagement Committee in April 2018. For further details of the review conducted by the Management Engagement

Committee, please see "Management Engagement Committee" in the Corporate Governance Report.

The Board has reviewed the recommendations of the Management Engagement Committee with respect to the engagement of the Investment Manager and the Company's material service providers above and agrees with the Committee's conclusions. In the opinion of the Board, the continued appointment of the Investment Manager and the other material service providers is in the interests of the Company's shareholders as a whole. As recommended by the Management Engagement Committee, the Board will continue to monitor the performance of the Company and the Investment Manager closely and will take further action as appropriate.

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

As an investment company, the Company does not have any employees or physical property, and most of its activities are outsourced to other firms. Therefore, the Company does not, for example, engage in any activities that would directly impact the environment or the community.

RELATIONS WITH SHAREHOLDERS

The Board recognizes the importance of soliciting shareholder feedback to understand shareholders' issues and address their concerns regarding the Company. The Chairman and other Directors met with a number of shareholders in 2018 and intend to continue to attend meetings with shareholders as their schedules permit.

The Investment Manager maintains regular contact with shareholders via quarterly investor calls, the publication of weekly and monthly NAV estimates, and on an ad-hoc basis when queries from shareholders arise. The Board receives quarterly updates from the Investment Manager regarding investor contact during the quarter, which include, among other items, a summary of common discussion topics, selected meeting highlights, and metrics regarding the type, location and investment timeframe of shareholders contacted. The Board notes that during the course of 2018, the Investment Manager communicated with holders of a majority of the Company's Public Shares.

Jefferies and Fidante Capital plc acted as corporate brokers to the Company during 2018 to support communications with shareholders and advise the Company on shareholder sentiment. Investor feedback from meetings conducted by these advisers is reported to the Board on a regular basis.

Each year, shareholders have the opportunity to meet the Directors at the Company's investor meeting in London and the AGM. In addition, on a more formal basis, the Directors report to shareholders throughout the year with the publication of the annual and half-yearly reports.

Shareholders may contact the Directors in writing at the Company's registered office or by email at elysium@elysiumfundman.com.

GOING CONCERN

The Company's investment activities, together with factors likely to affect its future development, performance and position are set out in Principal Risks and Uncertainties above and Note 13.

The Board has considered the financial prospects of the Company for the next twelve months from the date of approval of the Financial Statements and made an assessment of the Company's ability to continue as a going concern.

In assessing the going concern status of the Company, the Directors have considered:

- The Company's net assets attributable to all shareholders at December 31, 2018 of $3,832,957,828;
- The liquidity of the Company's assets (at December 31, 2018, 83.3% of its assets comprised of cash and cash equivalents and Level 1 assets); and
- The Company's debt to capital ratio of 20.7% at December 31, 2018.

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, particularly its cash holdings and Level 1 assets, the Directors and the Investment Manager believe that the Company is well placed to manage its business risks. Furthermore, the Directors confirm that they have a reasonable expectation that the Company will continue to operate and meet its liabilities as they fall due for the foreseeable future and they do not consider there to be any threat to the going concern status of the Company. For these reasons, the Directors have adopted the going concern basis in preparing the Financial Statements.

VIABILITY STATEMENT

In accordance with Principle 21 of the AIC Code, the Board has carefully considered the principal risks set out in Principal Risks and Uncertainties above alongside the measures in place to mitigate those risks—both at the Investment Manager level and the Company level—and has determined that they are sufficient such that the risks will not likely impair the long-term viability of the business. The Board has made this assessment with respect to the upcoming three-year period.

The Board has evaluated quantitative data as of December 31, 2018 including shareholders' net assets, the liquidity of the Company's assets and the Company's total liabilities, and has also considered projections of expected outflows, management fees and performance fees for the next three years (if any). The Board believes that the three-year timeframe is appropriate given the general business conditions affecting PSH's portfolio positions and the regulatory environment in which PSH operates, which is undergoing constant change.

On the basis of these projections, the Board has determined that the Company will remain viable for the upcoming three-year period.

The Board is confident that these projections can be relied upon to form a conclusion as to the viability of the Company with a reasonable degree of accuracy over the three-year timeframe. This assessment is conducted annually by the Board.

KEY INFORMATION DOCUMENT

The Company has prepared a standardized Key Information Document ("KID") conforming to the requirements of the EU Packaged Retail and Insurance-Based Investment Products Regulation. The KID is updated at least annually and is available at pershingsquareholdings.com/company-documents.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Report of the Directors and the Financial Statements in accordance with applicable laws and regulations. The Companies (Guernsey) Law, 2008 requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year. In preparing those Financial Statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008, Protection of Investors (Bailiwick of Guernsey) Law, 1987, the listing requirements of Euronext Amsterdam and the UK Listing Authority, the Company's governing documents and the applicable regulations under English and Dutch law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors confirms to the best of her or his knowledge and belief that:

- the Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties faced.

The Directors further confirm that they have complied with the above requirements and that this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

DISCLOSURE OF INFORMATION TO THE AUDITOR

So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board.

/s/ Anne Farlow	/s/ Richard Battey
Anne Farlow Chairman of the Board March 25, 2019	Richard Battey Chairman of the Audit Committee March 25, 2019

Directors' Remuneration Report

A Remuneration Committee consisting of all the independent Directors of the Company was established by the Board on October 23, 2018 in anticipation of compliance with the 2019 AIC Code. Mr Wohanka is the Chairman of the Remuneration Committee. The Committee had its first meeting in February 2019. Prior to the formation of the Committee, matters of remuneration were considered by the entire Board. The Board did not use an external adviser in considering the Directors' remuneration.

The Directors, other than Mr Botta, are all independent non-executive Directors. The Directors are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and will be available for inspection at the AGM.

DIRECTOR REMUNERATION POLICY

The Directors shall be paid such remuneration for their services as determined by the Board, save that, unless otherwise approved by ordinary resolution, each Director's remuneration shall not exceed £150,000 per annum, the limit set in the Company's Articles of Incorporation. All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties.

When considering the level of each non-executive Director's fee, the Board gives due regard to the time commitments expected; the level of skill and experience of each Director; and the current market and levels of companies of similar size and complexity. Review may not result in any changes to remuneration. In addition, the Board may determine that additional remuneration may be paid, from time to time, on a time spent basis to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company. Following this evaluation, the Board determined that the remuneration paid to the Directors for the year ended December 31, 2018, was appropriate and did not change the fees to be paid in 2019. Ms Farlow and Mr Battey were paid higher fees to reflect the additional responsibilities required of the Chairman of the Board and of the Audit Committee.

The Remuneration Committee will perform this review for Directors' remuneration in 2019. Mr Botta does not receive a fee for his services as a Director.

The Company has undertaken, subject to certain limitations, to indemnify each Director out of the assets and profits of the Company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities arising out of any claims made against them in connection with the performance of their duties as a Director of the Company.

All Directors are required to submit themselves to annual re-election by shareholders at each annual general meeting in accordance with the Articles of the Company. On termination of the appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date. The Company does not pay any remuneration to the Directors for loss of office.

ANNUAL REPORT ON REMUNERATION

Service Contracts Obligations and Payment on Loss of Office

No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

Total Remuneration Paid to Each Director

The total remuneration of the Directors for the year ended December 31, 2018 was:

	2018	2017
Anne Farlow	£75,000	£75,000
Richard Battey	£55,000	£55,000
Nicholas Botta	–	–
Bronwyn Curtis[1]	£34,341	N/A
Jonathan Kestenbaum[2]	£5,972	£50,000
William Scott	£50,000	£50,000
Richard Wohanka[1]	£34,341	N/A

[1]Appointed April 24, 2018
[2]Retired in February 2018

All of the above remuneration relates to fixed annual fees. Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company. Accordingly, there were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during the year/period.

Directors’ shareholdings in the Company

Directors are not required under the Company’s Articles of Incorporation or letters of appointment to hold shares in the Company. At December 31, 2018, the Directors’ interests in the Company were as follows:

	Class of Shares Held	Number of Shares
Richard Battey	Public Shares	4,000
Nicholas Botta	Management Shares	1,726,083
Bronwyn Curtis	N/A	–
Anne Farlow	Public Shares	10,139
William Scott	Public Shares	10,000
Richard Wohanka	N/A	–

During the year ended December 31, 2018, Nicholas Botta purchased 1,785,000 and sold 246,661 Public Shares in the market. He converted 1,785,000 Public Shares to 1,668,590 Management Shares and 229,971 Management Shares to 246,661 Public Shares. In October 2018, Mr Botta purchased 57,493 Management Shares from a former employee of PSCM. In December 2018, William Scott purchased 10,000 Public Shares. In February 2019, Mr Scott purchased an additional 10,000 Public Shares. There have been no other changes in the interests of the Directors between December 31, 2018 and the date of signing this report.

Corporate Governance Report

The Company is a member of the Association of Investment Companies ("AIC") and reports against the AIC Code of Corporate Governance (the "AIC Code"). The AIC Code provides a framework of corporate governance best practices for investment companies.

As an entity authorized and regulated by the Guernsey Financial Services Commission (the "GFSC"), the Company is subject to the GFSC's "Finance Sector Code of Corporate Governance" (the "Guernsey Code"). By reason of the premium listing of the Public Shares on the LSE, the Company is also required by the Listing Rules to report on how it has applied the UK Corporate Governance Code. The Company is deemed to meet its reporting obligations under the Guernsey Code and the UK Code by reporting against the AIC Code. The AIC Code addresses all of the principles set out in Guernsey Code and, by reference to the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide"), the UK Code. In addition, the AIC Code contains additional principles and recommendations on issues that are of specific relevance to investment companies. Accordingly, the Board believes that applying the AIC Code, as explained by the AIC Guide, provides the appropriate corporate governance framework for the Company and reporting for its shareholders.

The AIC Code is available on the AIC's website, www.theaic.co.uk. The UK Code is available on the UK Financial Reporting Council's website, www.frc.org.uk. The AIC published the 2019 AIC Code in February 2019, which applies to accounting periods beginning on or after January 1, 2019. As the 2019 AIC Code closely reflects the UK Code, the AIC has withdrawn the AIC Guide. Beginning with its 2019 annual report the Company will satisfy its obligations under the UK Code and the Guernsey Code by reporting against the 2019 AIC Code.

The Company's compliance with the AIC Code is explained in this Corporate Governance Report, the Report of the Directors, the Directors Remuneration Report and the Report of the Audit Committee. Except as set forth below and in the Report of the Audit Committee, the Company has complied with the principles and recommendations of the AIC Code and the relevant provisions of the UK Code.

The UK Code includes provisions relating to:

- The role of the chief executive;
- Executive directors' remuneration; and
- The need for an internal audit function.

For the reasons set out in the AIC Guide, the Board does not consider these provisions to be relevant to the Company, given that it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no full time executive Directors, no direct employees or internal operations. The Company has therefore not reported further in respect of these provisions, which are not provisions to report on in the 2019 AIC Code.

The Board strives to maintain high standards of corporate governance and is pleased to report the following enhancements to its compliance with the principles of the AIC Code:

- The Board has established a separate Remuneration Committee and has appointed Mr Wohanka as its Chairman. The Remuneration Committee had its first meeting in February 2019.
- The Board has adopted a policy on tenure, which is described in "Board Tenure and Succession Planning" below.
- The Board has appointed Ms Curtis as its Senior Independent Director.
- The Board has adopted a diversity policy, which is described in "Diversity" below.
- The Chairman has assessed the training or professional development needs of each Director.

THE BOARD COMPOSITION AND DELEGATION OF FUNCTIONS AND ACTIVITIES

The Board consists of six non-executive Directors, five of whom are independent. Mr Botta, as President of the Investment Manager, is deemed not to be an independent Director of the Company.

On February 12, 2018, Jonathan Kestenbaum retired as a non-executive Director. He served as an independent non-executive Director of the Company since 2014. At the 2018 Annual General Meeting of the Company on April 24, 2018, shareholders elected two new independent non-executive directors, Bronwyn Curtis and Richard Wohanka, to the Board.

The Company has no executive directors and no employees and has engaged external parties to undertake the daily management, operational and administrative activities of the Company. In particular, the Directors have delegated the function of managing the assets comprising the Company's portfolio to the Investment Manager, which is not required to, and generally will not, submit individual investment decisions for the approval of the Board. In each case where the Board has delegated certain functions to an external party, the delegation has been clearly documented in contractual arrangements between the Company and the external party. The Board retains accountability for the various functions it delegates. Further information is provided in the Report of the Audit Committee.

DIVERSITY

The Board adopted a diversity policy on February 14, 2019. The Board recognizes that Board diversity contributes meaningfully to Board effectiveness and good corporate governance. Furthermore, in accordance with the AIC Code, the Board believes that Board diversity is an important component of a Board that reflects the balance of skills, experience, independence, opinions and knowledge appropriate for the Company.

The Board is committed to appointing the best possible applicant for any open Board positions, taking into account the composition and needs of the Board at the time of the appointment. Subject to the foregoing, it is the intention of the Board that Board members include Directors of different backgrounds, races and genders with different skills, knowledge and experience.

The Nomination Committee will be responsible for recommending the appointment of new Directors to the Board. When evaluating candidates, the Nomination Committee will give full consideration to the skills, experience, knowledge, background, gender and race of each candidate in the context of the composition of the current Board (including the benefits of diversity), the challenges and opportunities facing the Company and the balance of skills, knowledge and experience needed for the Board to be effective in the future. All candidates will be considered on merit. Where appropriate, the Nomination Committee may retain external search consultants to assist in securing a diverse pool of candidates for open Board positions.

The Board currently comprises two female and four male Directors. The Nomination Committee and the Board will consider the gender diversity of the Board, along with all other relevant factors described above, when considering future Board appointments. The Board acknowledges the 33% target set by the Hampton-Alexander Review for female representation on boards of FTSE 350 companies and intends to maintain such representation to the extent consistent with its aim that the Board reflects the balance of skills, experience, length of service and knowledge appropriate for the Company.

BOARD TENURE AND SUCCESSION PLANNING

All Directors are required to submit themselves to annual re-election by shareholders at each annual general meeting and any Director appointed in accordance with the Articles of Incorporation will hold office only until the next following annual general meeting, and will then stand for re-election. As such, no issues are expected to arise with respect to long tenure. To date, no Director has served for longer than eight years. In accordance with the AIC Code, if and when any Director has been in office (or upon re-election would at the end of that term, be in office) for more than nine years, the Company will consider whether there is a risk that such Director might reasonably be deemed to have lost independence through such long service.

On February 12, 2018, Jonathan Kestenbaum retired from the Board and Bronwyn Curtis and Richard Wohanka were elected to the Board by shareholders on April 24, 2018. Details regarding the search process undertaken by the Nomination Committee are provided under "Nomination Committee" below.

The Nomination Committee has confirmed that each of Ms Curtis and Ms Wohanka received the appropriate induction materials and on-site training by the Investment Manager.

The Board notes that the addition of Ms Curtis and Mr Wohanka did not cause undue disruption to its operation and expects to manage similarly any future changes to the Board's composition.

THE BOARD'S PROCESSES

The Board meets regularly throughout the year, at least on a quarterly basis, and maintains regular contact with the Investment Manager and Elysium Fund Management Limited (the "Administrator"). At each quarterly Board meeting, the Directors review the Company's investments, key operational risks, share price performance and the premium/discount to NAV at which the Company's Public Shares are trading, investor relations and compliance with regulations.

In order to perform these reviews in an informed and effective manner, the Board receives formal reports from the Investment Manager at each quarterly Board meeting. The Board may also request focused reports to review the Investment Manager's controls in certain operational areas, such as information security, regulatory compliance or media relations. The Directors are kept informed of investments and other matters relevant to the operation of the Company that would be expected to be brought to the Board's attention.

Between meetings there is regular contact amongst the Investment Manager, Administrator and the Board. The Board is supplied with information in a timely manner by the Investment Manager, Administrator and other advisers to enable it to discharge its duties efficiently and effectively.

An induction program, including training and information about the Company and the Investment Manager is provided to Directors upon their election or appointment to the Board. Each Director is encouraged to consider their own training needs on an ongoing basis and the Chairman also assesses the individual training requirements of each Director. Directors, where necessary in the furtherance of their duties, also have access to independent professional advice at the Company's expense.

BOARD ATTENDANCE

All Board members are expected to attend each Board meeting and to arrange their schedules accordingly, although non-attendance may be unavoidable in certain circumstances. The following table details the number of Board meetings attended by each Director in the year ended December 31, 2018:

	Scheduled Quarterly Board Meetings (attended/eligible)	Ad-hoc Board Meetings (attended/eligible)
Anne Farlow	4/4	5/5
Richard Battey	4/4	5/5
Nicholas Botta[1]	4/4	2/4
Bronwyn Curtis[2]	3/3	2/2
William Scott	4/4	5/5
Richard Wohanka[2,3]	2/3	2/2

[1] Mr Botta does not attend meetings as a Director where such attendance may conflict with his interests as President and a partner of the Investment Manager.
[2] Elected to the Board on April 24, 2018.
[3] Mr. Wohanka was unable to attend meetings held on the date of his election to the Board.

The Board meets formally four times a year. Ad-hoc Board meetings may be convened at short notice to discuss time-sensitive matters arising in between scheduled meetings and require a minimum quorum of two Directors.

COMMITTEES OF THE BOARD

The Board has established an Audit Committee, a Management Engagement Committee, a Nomination Committee and a Remuneration Committee. Each Committee's members are the independent Directors of the Company who are not affiliated with the Investment Manager.

Audit Committee

Further details as to the composition and role of the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee

A Remuneration Committee consisting of all the independent Directors of the Company was established by the Board on October 23, 2018. Mr Wohanka is the Chairman of the Remuneration Committee. The Remuneration Committee first met in February 2019 and will seek to ensure that the Company maintains fair and appropriate remuneration policies and controls. Further details regarding the Directors' remuneration are provided in the Directors' Remuneration Report.

The written terms of reference of the Remuneration Committee are available on the Company's website or, on request, from the Company's Administrator.

Management Engagement Committee

The Management Engagement Committee reviews the performance of the Investment Manager in the management of the Company's affairs and the terms of engagement and performance of the Company's other key service providers, and then reports and makes recommendations to the full Board. William Scott has succeeded Jonathan Kestenbaum as the Chairman of the Management Engagement Committee following his retirement as a Director on February 12, 2018.

	Management Engagement Committee Meetings (attended/eligible)
Anne Farlow	3/3
Richard Battey	3/3
Bronwyn Curtis[1]	2/2
William Scott	3/3
Richard Wohanka[1,2]	1/2

[1]Elected to the Board on April 24, 2018

[2]Mr. Wohanka was unable to attend meetings held on the date of his election to the Board.

The written terms of reference of the Management Engagement Committee are available on the Company's website or, on request, from the Company's Administrator.

The Management Engagement Committee held three meetings in 2018 and performed a formal review of the Company's key service providers, including the Investment Manager, in April 2018. The Management Engagement Committee's review of the Investment Manager included a discussion of, among other items, the Company's short and long-term investment performance, the discount to NAV at which Public Shares trade, the Company's portfolio, the Investment Manager's track record and activist strategy, operational changes made by the Investment Manager, and the substantial investment in the Company made by senior executives and other investment personnel of the Investment Manager. The Committee agreed that although the Company's investment performance had been unsatisfactory in 2017, performance had stabilized in 2018 and the Investment Manager had taken the appropriate actions to improve performance, including returning Mr Ackman to a primarily investment-focused role, resolving outstanding litigation, generating new investment ideas, and eliminating certain legacy holdings that were detractors to performance. Accordingly, the Committee recommended that the Board continue to engage PSCM as the Investment Manager while monitoring performance closely.

The Committee also reviewed the performance of and fees paid to the Company's other key service providers and made certain recommendations to the Board and the Investment Manager.

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, succession planning for Director departures and identifying and nominating suitable candidates to fill vacancies, taking into account the challenges and opportunities facing the Company and the skills, knowledge and experience needed on the Board. The Nomination Committee reports its recommendations to the full Board. Ms Farlow is the Chairman of the Nomination Committee. In the event the Nomination Committee is considering the matter of the succession to the chairmanship of the Board, another member of the Committee will preside as Committee Chairman.

	Nomination Committee Meetings (attended/eligible)
Anne Farlow	4/4
Richard Battey	4/4
Bronwyn Curtis[1]	N/A
William Scott	4/4
Richard Wohanka[1]	N/A

[1]Elected to the Board on April 24, 2018

The written terms of reference of the Nomination Committee are available on the Company's website or, on request, from the Company's Administrator.

The Nomination Committee met four times during 2018 in connection with the selection of Ms Curtis and Mr Wohanka as candidates for election to the Board. Following the retirement of Jonathan Kestenbaum, the Nomination Committee promptly commenced a search process for prospective replacement candidates and engaged Egon Zehnder, an executive search firm with no other connection to the Company, to assist the Nomination Committee in identifying suitable candidates. In directing the search firm and when evaluating candidates, the Nomination Committee gave full consideration to the challenges and opportunities facing the Company, the skills, knowledge, experience, background and gender of each candidate in the context of the Board's composition and the expertise needed on the Board in the future.

Following discussion of a number of highly qualified candidates proposed by the search firm, a shortlist of candidates was chosen and these candidates were interviewed by the Chairman of the Nomination Committee and a senior member of the Investment Manager. After consideration of the results of the initial interviews and the notable backgrounds of these candidates, Ms Curtis and Mr Wohanka were interviewed by the remaining members of the Nomination Committee and Mr. Ackman. Following this process, the Nomination Committee recommended that the Board submit both candidates for shareholder approval as independent non-executive Directors of the Company and both were elected by shareholders on April 24, 2018.

COMMITTEES OF THE INVESTMENT MANAGER

The Investment Manager operates a Conflicts Committee, which meets no less frequently than annually and on an as-needed basis; a Best Execution Committee and a Cybersecurity Committee, which meet no less frequently than quarterly and on an as-needed basis; and a Valuation Committee and a Disclosure Committee, which meet no less frequently than semi-annually and on an as-needed basis. The minutes from the meetings are presented to the Board at the quarterly Board meetings, or sooner if necessary.

BOARD PERFORMANCE

The performance of the Board and that of each individual Director is evaluated annually. The evaluation of the Board's performance in 2018 was performed internally. Each Director completed a questionnaire assessment of the effectiveness of the Board, its committees, the individual Directors and the policies and procedures observed by the Board and its committees. The results were collated by the Company's corporate secretary and were presented to the Board by the Chairman. No material weaknesses in performance were identified in the assessment and the Board has concluded that it operated effectively in 2018. The 2017 Board evaluation was externally facilitated by Deloitte LLP and the next external review will be completed in 2020, or earlier as the Board deems appropriate.

/s/ Anne Farlow
Anne Farlow
Chairman of the Board
March 25, 2019

Report of the Audit Committee

The Audit Committee consists of the independent Directors of the Company. Mr Battey is the Chairman of the Audit Committee. As Ms Farlow is an independent non-executive Director, the Directors consider it appropriate for her to be a member of the Audit Committee.

All members of the Audit Committee are expected to attend each Board and Audit Committee meeting and to arrange their schedules accordingly, although non-attendance may be unavoidable in certain circumstances. The following table details the number of formal meetings attended by each Director in the year ended December 31, 2018:

	Audit Committee Meetings (attended/eligible)
Anne Farlow	7/7
Richard Battey	7/7
Bronwyn Curtis[1]	3/3
William Scott	7/7
Richard Wohanka[1]	3/3

[1]Elected to the Board on April 24, 2018

The Audit Committee has written terms of reference with formally delegated duties and responsibilities. The terms of reference of the Audit Committee are available on the Company's website or, on request, from the Company's Administrator.

The Audit Committee considers the appointment, independence and remuneration of the auditor and reviews the annual accounts and half-yearly reports. Where non-audit services are to be provided by the auditor, the Audit Committee reviews the scope and terms of the engagement and gives full consideration to the financial and other implications of the engagement on the independence of the auditor before proceeding.

The principal duties of the Audit Committee are to monitor the integrity of the Financial Statements of the Company, including its annual and half-yearly reports and formal announcements relating to the Company's financial performance, and reviewing and reporting to the Board on significant financial reporting issues and judgments communicated to the Committee by the auditor. In particular, the Audit Committee reviews and assesses, where necessary:

- The consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Company;
- The methods used to account for significant or unusual transactions where different approaches are possible;
- Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
- The clarity of disclosure in the Company's financial reports and the context in which statements are made;
- All material information presented with the Financial Statements, such as the Chairman's Statement, Investment Manager's Report, Principal Risks and Uncertainties, Report of the Directors, and the Corporate Governance Report; and
- The content of the Annual Report and Financial Statements and advises the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

PREPARATION OF FINANCIAL STATEMENTS

As part of the December 31, 2018 audit, prior to the year end, the Audit Committee was involved in the planning and preparation for the Annual Report, Financial Statements and the audit. The Audit Committee along with the Investment Manager, Administrator and the auditor had a meeting in November 2018 to discuss the overall cohesion and understandability of the Annual Report, Financial Statements and the auditor's audit plan. The Chairman of the Board and the Chairman of the Audit Committee were in regular contact with the Investment Manager, Administrator and auditor throughout the process. From this contact, the Audit Committee was able to consider the processes of the Investment Manager and the Administrator in relation to the production of the Financial Statements and obtain comfort regarding the operation and suitability of these processes.

The Audit Committee commented on the design and detailed content of the Annual Report and Financial Statements, ensuring that examples of best practices had been carefully considered in the context of the Company. The Audit Committee used the Investment Manager's, Administrator's and auditor's knowledge to determine the overall fairness, balance and understandability of the Annual Report and Financial Statements prior to final approval by the Board. This allowed the Audit Committee and the Board to be satisfied that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable. The Audit Committee will continue to monitor feedback for future enhancements.

SIGNIFICANT REPORTING MATTERS

The Audit Committee reviewed and discussed the most relevant audit issues for the Company and received a report from the auditor. The Audit Committee made the following assessments during the year:

The Audit Committee has confirmed that when the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined by the Investment Manager using prices obtained from counterparties or an independent third-party pricing service/valuation agent for Level 2 and/or Level 3 investments. The independent third-party pricing service/valuation agent utilizes proprietary models to determine fair value. The Audit Committee also reviewed the auditor's assessment of the appropriateness of the valuation process and methodology. The Audit Committee has satisfied itself that the valuation techniques are accurate and appropriate for the Company's investments and are consistent with the requirements of International Financial Reporting Standards ("IFRS").

The Audit Committee reviewed significant changes to the design and order of the Annual Report and Financial Statements proposed by the Investment Manager and confirmed that such changes were in line with market practice.

The Audit Committee reviewed the Board's procedures regarding the identification, management, and monitoring of risks that could affect the Company. The Audit Committee considers that the Board is engaged on an ongoing basis in the process of identifying, evaluating and managing (where possible) the principal risks facing the Company as described in Principal Risks and Uncertainties on page 23.

The Audit Committee continues to monitor the review by the Board of the Company's compliance with applicable regulations, listing requirements and corporate governance standards.

Members of the Audit Committee met with the auditor a number of times during the audit process and, after considering the audit process and various discussions with the auditor, Investment Manager and Administrator, are satisfied that the audit was undertaken in an effective manner and addressed the main risks.

INTERNAL CONTROLS

It is the duty of the Audit Committee to examine the effectiveness of the Company's internal control systems and for the Board to undertake an annual review of the significant operational risks faced by the Company and to consider the effectiveness of the procedures in place to control these operational risks. At each quarterly Board meeting since the Company was formed, the Board has reviewed the significant operational risks faced by the Company and the procedures that are in place to manage those operational risks.

The Board is ultimately responsible for the Company's system of internal controls and for assessing its effectiveness at managing the operational risks to which the Company is exposed. The internal control systems are designed to manage, rather than eliminate, the operational risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss. The Board confirms there is an ongoing process for identifying, evaluating and managing the significant operational risks faced by the Company, and that this process has been in place for the year ended December 31, 2018, and up to the date of the approval of the Annual

Report and Financial Statements. This is in accordance with relevant best practice detailed in the Financial Reporting Council's guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

The Company does not have an internal audit department. All of the Company's management functions are delegated to independent third parties and it is therefore felt that there is no need for the Company to have an internal audit facility. The Board has familiarized itself with the internal control systems of its material service providers, which report regularly to the Board. The Board is satisfied that the controls employed by these service providers adequately manage the operational risks to which the Company is exposed.

AUDITOR

It is the duty of the Audit Committee, among other things, to:

- Consider and make recommendations to the Board to be put to shareholders for approval at the AGM, in respect of the appointment of an external auditor;
- Discuss and agree with the external auditor the nature and scope of the audit;
- Keep under review the scope, results and cost effectiveness of the audit and the independence and objectivity of the auditor; and
- Review the external auditor's letter of engagement, audit plan and management letter.

Ernst & Young LLP has been appointed to provide audit services to the Company and has acted as the Company's auditor since it was appointed to audit the Company's first Financial Statements, for the period ended December 31, 2012. A resolution to re-appoint Ernst & Young LLP as auditor will be proposed at the AGM.

The Audit Committee reviewed the scope of the audit and the fee proposal set out by the auditor in its audit planning report and discussed these with the auditor at the Audit Committee meeting held on October 23, 2018. The Audit Committee recommended to the Board that it accept the auditor's proposed fee of approximately $159,000 (2017 Actual: $201,800) for the audit of the Annual Report and Financial Statements.

The table below summarizes the amounts paid to the auditor for non-audit services during the years ended December 31, 2018 and December 31, 2017.

	Year Ended 2018	Year Ended 2017
Interim Review	$ 54,800	$ 51,900
Tax Services	46,400	52,200
Services for LSE Listing	–	178,000
Other Services	13,800	51,900
Total Non-Audit fees	$ 115,000	$ 334,000

The Audit Committee understands the importance of auditor independence and reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditor. During the year, the Audit Committee receives a report from the external auditor confirming its independence and the controls it has in place to ensure its independence is not compromised. In addition, the Audit Committee gives particular regard to non-audit fees and considers whether the auditor is the most appropriate party to provide any non-audit services. Because of the auditor's experience with the Company and expertise in the matters for which it was engaged, the Audit Committee believes that auditor has been able to perform the non-audit services more efficiently than another accounting firm, resulting in substantial time and cost savings to the Company. The Audit Committee has reviewed the fees paid for the non-audit services. The Audit Committee does not consider the fees to be excessive or a threat to the objectivity and independence of the conduct of the audit and considers Ernst & Young LLP to be independent of the Company.

To fulfill its responsibility regarding the independence of the external auditor, the Audit Committee considers:

- discussions with or reports from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the nature of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the Audit Committee reviews:

- the external auditor's fulfillment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit; and
- feedback from other service providers evaluating the performance of the audit team.

The Audit Committee is satisfied with Ernst & Young LLP's effectiveness and independence as external auditor having considered the degree of diligence and professional skepticism demonstrated by them and considered the Financial Reporting Council's Audit Quality Review of Ernst & Young LLP's previous audit work.

Having carried out the review described above, and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that Ernst & Young LLP be reappointed as external auditor for the year ending December 31, 2019.

Shareholders should note that the primary framework for the Company's audit is International Standards on Auditing (UK); the auditor's report thereunder is set out on pages 48–52. The Annual Report also includes on page 53 a report from the auditor to the Directors in accordance with U.S. Generally Accepted Auditing Standards in order to satisfy various U.S. regulatory requirements.

/s/ Richard Battey

Richard Battey
Chairman of the Audit
Committee
March 25, 2019

Report of Independent Auditor

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERSHING SQUARE HOLDINGS, LTD.

Opinion

We have audited the Financial Statements of Pershing Square Holdings, Ltd. (the "Company") for the year ended 31 December 2018 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Management Shareholders, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS").

In our opinion, the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008 ("the Companies Law").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Principal Risks, Going Concern and Viability Statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report, set out on pages 23–26, that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 23, in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statements on pages 34 and 61 in the annual report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements
- whether the directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on page 35, in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of Our Audit Approach

Key Audit Matters	Misstatement of the valuation of the Company's investments
Audit Scope	We performed an audit of the Financial Statements of the Company for the year ended 31 December 2018
Materiality	Overall materiality of $37.5m which represents 1% of net assets.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Misstatement of the valuation of the Company's investments (2018 – assets: $4,537.0 million and liabilities: $144.7 million; 2017 – assets: $3,885.3 million and liabilities: $6.2 million) Refer to the Audit Committee Report (pages 44–47); Accounting policies (pages 61–66); and Note 7 of the Financial Statements (pages 70–73) The fair value of the investment portfolio may be misstated due to application of inappropriate methodologies or inputs to the valuations. The valuation of the Company's investments is a key driver of the Company's net asset value and total return. Investment valuation could have a significant impact on the net asset value of the Company and the total return generated for shareholders. There has been no change in this risk from the previous year.	We have updated our understanding of the investment valuation process, performed a walkthrough of the investment valuation class of transactions and evaluated the design of controls in this area. Assessed the reasonableness and appropriateness of the valuation model/method, comparing these to our understanding of market practices and determined whether significant assumptions used to estimate fair value are reasonable and appropriately supported. For options, forwards and swaps, we instructed our internal valuation specialists to assist the audit team by independently valuing all positions. We compared their values to the Company's valuations, assessing differences with reference to our Reporting Threshold. Obtained values for all remaining investments from independent sources and compared these to the client proposed values assessing differences with reference to our Reporting Threshold. Assessed whether the valuation determined is in accordance with IFRS by comparing the valuation methodology to the requirements of IFRS 13.	No significant findings were identified in respect of investment valuation.

An Overview of the Scope of our Audit

Tailoring the Scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the Financial Statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our Application of Materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be $37.5 million (2017: $40.9 million), which is 1% (2017: 1%) of net assets. We believe that net assets provides us with the best measure of materiality as the Company's primary performance measures for internal and external reporting are based on equity.

During the course of our audit, we reassessed initial materiality and updated its calculation to align with the year-end net assets figure.

Performance Materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely $28.1 million (2017: $30.7 million). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in the Financial Statements did not exceed our materiality level.

Reporting Threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $1.9 million (2017: $2.0 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable, set out on page 36—the statement given by the directors that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit committee reporting, set out on pages 44–47—the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

- Directors' statement of compliance with the UK Corporate Governance Code, set out on page 39—the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or

- the Financial Statements are not in agreement with the Company's accounting records and returns; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement, set out on pages 35–36, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of Report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

/s/ Christopher James Matthews
Christopher James Matthews, FCA
For and on behalf of Ernst & Young LLP
Guernsey
March 25, 2019

(1) The maintenance and integrity of the Pershing Square Holdings, Ltd web site is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the web site.
(2) Legislation in Guernsey governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF PERSHING SQUARE HOLDINGS, LTD.

We have audited the accompanying Financial Statements of the Company, which comprise the Statement of Financial Position as of December 31, 2018, and the related Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Management Shareholders, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and the related notes to the Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in conformity with International Financial Reporting Standards. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Financial Statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Financial Statements referred to above present fairly, in all material respects, the financial position of Pershing Square Holdings, Ltd. at December 31, 2018, and the results of its operations, changes in net assets attributable to management shareholders and equity, and its cash flows for the year then ended, in conformity with International Financial Reporting Standards.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Financial Statements as a whole. The accompanying Supplemental U.S. GAAP Disclosures and Certain Regulatory Disclosures are presented for the purposes of additional analysis and are not a required part of the Financial Statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Financial Statements. The information has been subjected to the auditing procedures applied in the audit of the Financial Statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Financial Statements or to the Financial Statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the Financial Statements as a whole.

/s/ Ernst & Young LLP
Ernst & Young LLP
Guernsey
March 25, 2019

Audited Financial Statements

STATEMENT OF FINANCIAL POSITION

As of December 31, 2018 and December 31, 2017
(Stated in United States Dollars)

	Notes		2018		2017
Assets					
Cash and cash equivalents	10	$	201,246,176	$	1,082,102,874
Due from brokers	13		361,646,991		710,597,200
Trade and other receivables	9		6,770,263		18,520,293
Financial assets at fair value through profit or loss					
Investments in securities	6		4,475,040,071		3,140,815,503
Derivative financial instruments	6, 8		61,913,945		744,454,840
Total Assets		**$**	**5,106,617,446**	**$**	**5,696,490,710**
Liabilities					
Due to brokers	13	$	67,510,000	$	340,795,000
Due to Pershing Square, L.P.	16		24,783,576		-
Due to Pershing Square International, Ltd.	16		18,145,672		-
Trade and other payables	9		1,107,053		91,121,135
Financial liabilities at fair value through profit or loss					
Derivative financial instruments	6, 8		144,701,338		6,192,314
Bonds	18		1,017,411,979		1,015,427,736
Liabilities excluding net assets attributable to management shareholders			1,273,659,618		1,453,536,185
Net assets attributable to management shareholders[1]	11		86,046,388		156,268,350
Total Liabilities		**$**	**1,359,706,006**	**$**	**1,609,804,535**
Equity					
Share capital	11	$	5,678,775,664	$	5,927,042,332
Accumulated deficit			(1,931,864,224)		(1,840,356,157)
Total Equity[2]			**3,746,911,440**		**4,086,686,175**
Total Liabilities and Equity		**$**	**5,106,617,446**	**$**	**5,696,490,710**
Net assets attributable to Public Shares		$	3,746,801,313	$	4,086,575,831
Public Shares in issue			216,616,094		234,716,810
Net assets per Public Share		$	17.30	$	17.41
Net assets attributable to Management Shares		$	86,046,388	$	156,268,350
Management Shares in issue			4,626,817		8,500,796
Net assets per Management Share		$	18.60	$	18.38
Net assets attributable to Special Voting Share		$	110,127	$	110,344
Special Voting Share in issue			1		1
Net assets per Special Voting Share		$	110,126.76	$	110,343.92

[1]Net assets attributable to management shareholders are comprised of the aggregate net asset values of all Management Shares as of December 31, 2018 and December 31, 2017, respectively.
[2]Total equity of the Company is comprised of the aggregate net asset values of all Public Shares and the Special Voting Share as of December 31, 2018 and December 31, 2017.
Under IFRS, Management Shares are classified as financial liabilities rather than equity. See Note 2 on page 66 for further details.
The accompanying notes form an integral part of these Financial Statements.

These Financial Statements on pages 54–91 were approved by the Board of Directors on March 25, 2019, and were signed on its behalf by

/s/ Anne Farlow	/s/ Richard Battey
Anne Farlow	Richard Battey
Chairman of the Board	Chairman of the Audit Committee
March 25, 2019	March 25, 2019

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and December 31, 2017
(Stated in United States Dollars)

	Notes	2018	2017
Investment gains and losses			
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss		$ (67,248,943)	$ (35,276,471)
Net realized gain/(loss) on commodity interests		(515,098)	(14,319,885)
Net change in unrealized gain/(loss) on commodity interests (net of brokerage commissions of (2018: $44,690, 2017: $118,644))		746,255	1,270,848
	6	(67,017,786)	(48,325,508)
Income			
Dividend income		88,997,501	59,962,586
Interest income	12	5,170,005	1,140,593
Other income		21,036	5,693
		94,188,542	61,108,872
Expenses			
Interest expense	12	(60,285,416)	(64,667,520)
Management fees	15	(52,391,923)	(63,211,761)
Professional fees		(6,452,737)	(11,963,798)
Other expenses		(1,551,689)	(3,394,472)
Legal reserve	14	–	(57,219,862)
		(120,681,765)	(200,457,413)
Profit/(loss) before tax attributable to equity and management shareholders		**(93,511,009)**	**(187,674,049)**
Withholding tax (dividends)		(15,625,914)	(9,812,956)
Profit/(loss) attributable to equity and management shareholders		**(109,136,923)**	**(197,487,005)**
Amounts attributable to management shareholders		(17,628,856)	(4,869,110)
Profit/(loss) attributable to equity shareholders[1]		**$ (91,508,067)**	**$ (192,617,895)**
Earnings per share (basic & diluted)[2]			
Public Shares	17	$ (0.43)	$ (0.81)
Special Voting Share	17	$ (2,487.05)	$ (5,141.58)

All the items in the above statement are derived from continuing operations. There is no other comprehensive income for the years ended 2018 and 2017.

(1) Profit/(loss) attributable to equity shareholders is comprised of the net profits earned and losses incurred by shareholders of Public Shares and the Special Voting Share.
(2) EPS is calculated using the profit/(loss) for the year attributable to equity shareholders divided by the weighted average shares outstanding over the full years of 2018 and 2017 as required under IFRS. See Note 17 for further details.

The accompanying notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO MANAGEMENT SHAREHOLDERS

For the years ended December 31, 2018 and December 31, 2017
(Stated in United States Dollars)

		Net Assets Attributable to Management Shareholders
As of December 31, 2017	$	**156,268,350**
Amounts attributable to management shareholders		(17,628,856)
Conversion from Management Shares to Public Shares		(557,044,535)
Conversion from Public Shares to Management Shares		500,528,717
Accretion from share buybacks[1]		3,922,712
As of December 31, 2018	$	**86,046,388**
As of December 31, 2016	$	**161,137,460**
Amounts attributable to management shareholders		(4,869,110)
As of December 31, 2017	$	**156,268,350**

(1) From May 2, 2017 to January 2, 2018, the Company engaged in a share buyback program whereby its buyback agent repurchased Public Shares subject to certain limitations. All repurchased Public Shares were subsequently cancelled. In May 2018, the Company purchased and cancelled 22,271,714 Public Shares pursuant to the Company Tender. See Note 11 for further details. This amount includes the accretion relating to both the share buyback program and the Company Tender that is allocated to the Management Shares.

The accompanying notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2018 and December 31, 2017
(Stated in United States Dollars)

	Share Capital	Accumulated Deficit	Total Equity
As of December 31, 2017[1]	**$ 5,927,042,332**	**$ (1,840,356,157)**	**$ 4,086,686,175**
Total profit/(loss) attributable to equity shareholders	–	(91,508,067)	(91,508,067)
Share buybacks[2]	(304,782,267)	–	(304,782,267)
Conversion from Management Shares to Public Shares	557,044,495	–	557,044,495
Conversion from Public Shares to Management Shares	(500,528,896)	–	(500,528,896)
As of December 31, 2018[1]	**$ 5,678,775,664**	**$ (1,931,864,224)**	**$ 3,746,911,440**
As of December 31, 2016[1]	**$ 6,003,372,824**	**$ (1,647,738,262)**	**$ 4,355,634,562**
Total profit/(loss) attributable to equity shareholders	–	(192,617,895)	(192,617,895)
Share buybacks[2]	(76,330,492)	–	(76,330,492)
As of December 31, 2017[1]	**$ 5,927,042,332**	**$ (1,840,356,157)**	**$ 4,086,686,175**

(1) Total equity of the Company is comprised of the aggregate net asset values of all Public Shares and the Special Voting Share. Under IFRS, Management Shares are classified as financial liabilities rather than equity. See Note 2 on page 66 for further details.
(2) From May 2, 2017 to January 2, 2018, the Company engaged in a share buyback program whereby its buyback agent repurchased Public Shares subject to certain limitations. All repurchased Public Shares were subsequently canceled. In May 2018, the Company purchased and canceled 22,271,714 Public Shares pursuant to the Company Tender. See Note 11 for further details. This amount includes the accretion relating to both the share buyback program and the Company Tender that is allocated to the Public Shares and the Special Voting Share.

The accompanying notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the years ended December 31, 2018 and December 31, 2017
(Stated in United States Dollars)

	Notes	2018	2017
Cash flows from operating activities			
Profit/(loss) for the year attributable to equity and management shareholders		$ (109,136,923)	$ (197,487,005)
Adjustments to reconcile changes in profit/(loss) for the year to net cash flows:			
Bond interest expense	18	56,984,243	56,874,831
Bond interest paid(1)	18	(55,000,000)	(55,000,000)
(Increase)/decrease in operating assets:			
Due from brokers		348,950,209	(167,747,139)
Trade and other receivables	9	11,750,030	(6,780,009)
Investments in securities	6	(1,334,224,568)	(504,048,330)
Derivative financial instruments	6	682,540,895	277,708,041
Increase/(decrease) in operating liabilities:			
Due to brokers		(273,285,000)	189,799,808
Due to Pershing Square VI, L.P.	16	24,783,576	–
Due to Pershing Square VI International, L.P.	16	18,145,672	–
Trade and other payables	9	(90,014,082)	57,304,938
Securities sold, not yet purchased	6	–	(385,314,274)
Derivative financial instruments	6	138,509,024	(184,541,909)
Net cash (used in)/from operating activities		**(579,996,924)**	**(919,231,048)**
Cash flows from financing activities			
Purchase of Public Shares(2)	11	(300,859,774)	(74,827,774)
Net cash (used in)/from financing activities		**(300,859,774)**	**(74,827,774)**
Net change in cash and cash equivalents		(880,856,698)	(994,058,822)
Cash and cash equivalents at beginning of year		1,082,102,874	2,076,161,696
Cash and cash equivalents at end of year	10	**$ 201,246,176**	**$ 1,082,102,874**
Supplemental disclosure of cash flow information			
Cash paid during the year for interest		$ 58,349,792	$ 63,095,570
Cash received during the year for interest		$ 4,725,497	$ 1,087,551
Cash received during the year for dividends		$ 96,472,882	$ 56,062,606
Cash deducted during the year for withholding taxes		$ 17,162,338	$ 9,839,294

(1) In accordance with the amendments to IAS 7, the Company's net debt reconciliation related to the Company's Bonds is further detailed in Note 18.
(2) Includes cash paid for fractional shares related to conversions.

The accompanying notes form an integral part of these Financial Statements.

Notes to Financial Statements

1. CORPORATE INFORMATION

Organization

The Company was incorporated with limited liability under the laws of the Bailiwick of Guernsey on February 2, 2012. It became a registered open-ended investment scheme, under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Registered Collective Investment Scheme Rules 2008 (issued by the Guernsey Financial Services Commission, the "GFSC"), on June 27, 2012, and commenced operations on December 31, 2012.

On October 2, 2014, the GFSC approved the conversion of the Company into a registered closed-ended investment scheme under the Protection of Investors Law and the 2008 Rules.

The Company's registered office is at 1st Floor, Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey, Channel Islands.

The latest traded price of the Public Shares is available on Reuters, Bloomberg, Euronext Amsterdam and the LSE.

A copy of the Prospectus of the Company is available from the Company's registered office and on the Company's website (pershingsquareholdings.com).

Investment Policy

Please refer to "Investment Policy" in the Report of the Directors for the Investment Policy of the Company.

Bond Offering

On June 26, 2015, the Company closed on the offering of $1 Billion Senior Notes that mature on July 15, 2022 (the "Bonds"). The Bonds were issued at par at a coupon rate of 5.5% per annum, which is paid semi-annually. The Bonds are listed on the Irish Stock Exchange with a trading symbol of PSHNA.

Investment Manager

The Company has appointed PSCM as its investment manager pursuant to the IMA. The Investment Manager has responsibility, subject to the overall supervision of the Board of Directors, for the investment of the Company's assets in accordance with the strategy set forth in this Annual Report. The Company delegates certain administrative functions relating to the management of the Company to PSCM. William A. Ackman is the managing member of PS Management GP, LLC, the general partner of PSCM.

Board of Directors

The Company's Board of Directors is comprised of Nicholas Botta, President and a partner of the Investment Manager, Anne Farlow, Richard Battey, Bronwyn Curtis, William Scott and Richard Wohanka, all of whom are non-executive Directors. All Directors other than Mr. Botta are considered independent. Anne Farlow is the Chairman of the Board. On February 12, 2018, Jonathan Kestenbaum retired as a non-executive Director of the Company. Jonathan Kestenbaum had served as an independent non-executive Director of the Company since 2014. Bronwyn Curtis and Richard Wohanka were elected by the Company's shareholders to the Board of Directors at the Company's 2018 Annual General Meeting on April 24, 2018.

Committees of the Board

The Board has established an Audit Committee, a Management Engagement Committee, a Remuneration Committee and a Nomination Committee. All Committee members are independent Directors of the Company who are not affiliated with the Investment Manager. Further details as to the composition and role of the Audit Committee are provided in the Report of the Audit Committee; further details as to the composition and role of the Management Engagement, Remuneration and Nomination Committees are provided in the Corporate Governance Report.

Prime Brokers

Pursuant to prime broker agreements, Goldman Sachs & Co. and UBS Securities LLC (the "Prime Brokers") both serve as custodians and primary clearing brokers for the Company.

Administrator and Sub-Administrator

Pursuant to an administration and sub-administration agreement dated April 2, 2012, Elysium Fund Management Limited (the "Administrator") and Morgan Stanley Fund Services (Bermuda) Ltd. (the "Sub-Administrator") have been appointed as administrator and sub-administrator, respectively, to the Company.

The Administrator provides certain administrative and accounting services including the maintenance of the Company's accounting and statutory records. The Administrator delegates certain of these services to the Sub-Administrator. The Administrator and Sub-Administrator receive customary fees, plus out of pocket expenses, based on the nature and extent of services provided.

London Stock Exchange Listing

On May 2, 2017, the Company announced that its Public Shares had been admitted to the Official List of the UK Listing Authority and had commenced trading on the Premium Segment of the Main Market of the LSE. As a result, shareholders are able to trade Public Shares on both Euronext Amsterdam and the LSE with shares quoted and traded in USD in Amsterdam and Sterling in London. The Company also added a U.S. dollar—denominated quotation on the LSE on May 29, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The Financial Statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The Financial Statements have been prepared on a historical-cost basis, except for financial assets and financial liabilities at fair value through profit or loss that have been measured at fair value.

The Company presents its statement of financial position with assets and liabilities listed in order of liquidity. An analysis regarding settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 13.

After making reasonable inquiries and assessing all data relating to the Company's liquidity, particularly its holding of cash and Level 1 assets, the Investment Manager and the Directors believe that the Company is well placed to manage its business risks, has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company. For these reasons, they have adopted the going concern basis in preparing the Financial Statements.

Financial Instruments

Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss and Commodity Interests

For the year ended December 31, 2018, the Company has adopted IFRS 9 Financial Instruments. See Note 4 for further explanation of the impact. Comparative figures for the year ended December 31, 2017 have not been restated and therefore financial instruments in the comparative year are still accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

(A) Classification - Policy effective from January 1, 2018 (IFRS 9)

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if: (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or (b) on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or (c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial Assets

The Company classifies its financial assets as subsequently measured at fair value through profit or loss or measured at amortized cost based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets measured at fair value through profit or loss ("FVPL")

A financial asset is measured at fair value through profit or loss if: (a) its contractual terms do not give rise to cash flows on specified dates that are Solely Payments of Principal and Interest ("SPPI") on the principal amount outstanding or (b) it is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell or (c) at initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Financial assets measured at amortized cost

A debt instrument is measured at amortized cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. The Company includes in this category short-term non-financing receivables including cash collateral posted on derivative contracts, accrued income and other receivables.

Financial Liabilities

Financial liabilities measured at fair value through profit or loss

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading. This category would include derivative contracts in a liability position and equity instruments sold short since they are classified as held for trading.

Financial liabilities measured at amortized cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Company includes in this category its Bonds and other short-term payables.

(B) Classification - Policy effective before January 1, 2018 (IAS 39)

(i) Classification

The Company classifies its financial assets and financial liabilities at fair value through profit or loss at initial recognition, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

The category of financial assets and financial liabilities at fair value through profit or loss is sub-divided into:

a) Financial assets and financial liabilities held for trading: these financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term and are acquired principally for the purpose of generating a profit from fluctuations in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading by definition. Equity instruments and other non-derivative instruments can be classified as held for trading depending on the purpose for which they are acquired. The Company's policy is not to apply hedge accounting.

b) Financial instruments designated at fair value through profit or loss upon initial recognition: these financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with investment strategies and risk management of the Company. Investments in affiliated entities are included in this category.

(ii) Recognition

The Company recognizes financial assets and financial liabilities held at fair value through profit or loss on trade date. From this date, any gains and losses arising from the changes in fair value of the assets and liabilities are recognized in the statement of comprehensive income.

Purchases or sales of financial assets and financial liabilities that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

(iii) Initial Measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognized directly within investment gains and losses.

(iv) Subsequent Measurement

After initial measurement, the Company measures financial instruments which are classified at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and financial liabilities at fair value through profit or loss in the statement of comprehensive income. Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired.

The Company will derecognize a financial liability when the obligation under the liability is discharged, canceled or expired.

Bonds at Amortized Cost

(i) Classification

The Company classifies its Bonds, as discussed in Note 1 and Note 18, at initial recognition at amortized cost, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

(ii) Recognition

The Company recognizes its Bonds upon the date of issuance of the Bonds.

(iii) Initial Measurement

Bonds are measured initially at their fair values plus any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent Measurement

After initial measurement, the Company measures the Bonds at amortized cost using the effective interest method. Interest expense relating to the Bonds is calculated using the effective interest method and allocated over the relevant period and is recognized in the statement of comprehensive income accordingly. The interest expense relating to the Bonds includes coupon interest accrued as well as amortization of the transaction costs from the bond offering.

(v) Derecognition

The Company will derecognize its liability associated with the Bonds upon maturity of the Bonds or in the event that the Company exercises its prepayment option for all or some of the Bonds, in which case all or some of the liability would be derecognized at the settlement date.

Fair Value Measurement

The Company measures its investments in financial instruments, such as equities, options and other derivatives, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In general, the Company values securities listed on a securities exchange at the official closing price reported by the exchange on which the securities are primarily traded on the date of determination. In the event that the date of determination is not a day on which the relevant exchange is open for business, such securities are valued at the official closing price reported by the exchange on the most recent business day prior to the date of determination. Exchange-traded options and securities listed on a securities exchange for which the exchange does not report an official closing price on the date of determination (other than because the relevant exchange was closed on such date) are valued at the average of the most recent "bid" and "ask" prices.

Securities that are not listed on an exchange but for which external pricing sources (such as dealer quotes or independent pricing services) may be available are valued by the Investment Manager after considering, among other factors, such external pricing sources, recent trading activity or other information that, in the opinion of the Investment Manager, may not have been reflected in pricing obtained from external sources. When dealer quotes are being used to assess the value of a holding, an attempt is made to obtain several independent quotes. The practical application of quoted market prices to portfolio positions is a function of the quoted differential in bid/offer spreads. Long and short positions generally are marked to mid-market (subject to the Investment Manager's discretion to mark such positions differently if and when deemed appropriate).

The valuation committee of the Investment Manager considers the appropriateness of the valuation methods and inputs, including information obtained after the close of markets, and may request that alternative valuation methods be applied to support the valuation arising from the method discussed. Any material changes in valuation methods are discussed and agreed with the Board of Directors.

In the years ended 2018 and 2017, investments where no market prices were available other than investments in affiliated entities were valued at fair value based upon independent third-party prices.

The Company's investments in affiliated entities are valued at fair value and represent the Company's proportionate interest in the net asset value of the affiliated entities at the reporting date. Having considered whether there are any circumstances requiring the need for adjustments to the net asset value of the affiliated entities in arriving at fair value, the Board of Directors in consultation with the Investment Manager concluded that no such adjustments were necessary and that net asset value approximated fair value.

Offsetting of Financial Instruments

IFRS allows financial assets and financial liabilities to be reported net by counterparty on the statement of financial position, provided the legal right and intention of offset exists. Financial assets and financial liabilities are reported gross by counterparty in the statement of financial position as it is not the Company's intention to settle on a net basis financial assets and financial liabilities with the collateral pledged to or received from counterparties in the statement of financial position.

See Note 8 for the offset of the Company's derivative assets and liabilities, along with collateral pledged to or received from counterparties.

Functional and Presentation Currency

The Company's functional currency is the United States Dollar ("USD"), which is the currency of the primary economic environment in which it operates. The Company's performance is evaluated and its liquidity is managed in USD. Therefore, USD is considered the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The presentation currency of the Company's Financial Statements is USD.

Foreign Currency Translations

Assets and liabilities denominated in non-U.S. currencies are translated into USD at the prevailing exchange rates at the reporting date. Transactions in non-U.S. currencies are translated into USD at the prevailing exchange rates at the time of the transaction. The Company does not isolate that portion of gains and losses on investments that is due to changes in foreign exchange rates from the portion due to changes in market prices of the investments. Such fluctuations are included in net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss in the statement of comprehensive income.

Amounts Due To and Due From Brokers

Due from brokers includes cash balances held at the Company's prime brokers, cash collateral pledged to counterparties related to derivative contracts and amounts receivable for securities transactions that have not settled at the reporting date. Cash that is related to securities sold, not yet purchased, is restricted until the securities are purchased. Due to brokers consists of cash received from counterparties to collateralize the Company's derivative contracts and amounts payable for securities transactions that have not settled at the reporting date.

Cash and Cash Equivalents

The Company considers all highly liquid financial instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents in the statement of financial position comprise cash at banks and money market funds which are invested in U.S. treasurys and obligations of the U.S. government.

Investment Income/Expense

Dividend income is recognized on the date on which the investments are quoted ex-dividend and presented gross of withholding taxes, which are disclosed separately in the statement of comprehensive income. Dividend expense relating to securities sold not yet purchased is recognized when the shareholders' right to receive the payment is established.

Interest income and expense relates to the Bonds, cash, collateral cash received/posted by the Company, interest/amortization on fixed income securities and rebate expense on securities sold not yet purchased. Interest income and expense is recognized when earned/incurred.

Net Gain or Loss on Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

The Company records its security transactions and the related revenue and expenses on a trade date basis. Unrealized gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of prior years' unrealized gains and losses for financial instruments which were realized in the reporting period.

Realized gains and losses on disposals of financial instruments classified at fair value through profit or loss are calculated using the highest cost relief method (specific identification). These gains or losses represent the differences between an instrument's initial carrying amount and disposal amount, or cash payments on, or receipts received from, derivative contracts.

Professional Fees

Professional fees include, but are not limited to, expenses relating to accounting, investment valuation, administrative services, auditing, entity-level taxes and tax preparation expenses, legal fees and expenses, professional fees and expenses (including fees and expenses of investment bankers, advisers, appraisers, public and government relations firms and other consultants and experts) and investment-related fees and expenses including research, but excluding investment transaction costs.

Other Expenses

Other expenses include, but are not limited to, investment-related expenses associated with activist campaigns including expenses for: (i) proxy contests, solicitations and tender offers; (ii) compensation, indemnification and expenses of nominees proposed by the Investment Manager as directors or executives of portfolio companies; and (iii) printing and postage expenses, bank service fees, insurance expenses, and expenses relating to regulatory filings and registrations made in connection with the Company's business and investment activities.

Taxes

The Company is not subject to any income or capital gains taxes in Guernsey. The only taxes payable by the Company on its income are withholding taxes applicable to certain investment income, such as dividends. As a result, no other income tax liability or expense has been recorded in the accompanying Financial Statements.

Management Fees and Performance Fees

The Company recognizes management fees and performance fees in the period in which they are incurred in accordance with the terms of the IMA, which is an executory contract under IAS 37 as discussed in Note 3. Refer to Note 15 for detailed information regarding the calculation of both fees.

Net Assets Attributable to Management Shareholders

In accordance with IAS 32, the Company classifies its Public Shares and the Special Voting Share as equity as shareholders do not have any rights of redemption.

Management Shares can be converted into a variable number of Public Shares based upon their net asset values as of the last day of each calendar month and are therefore classified as financial liabilities in accordance with IFRS. At no time can Management Shares be redeemed in cash at the option of the management shareholders. Net assets attributable to Management Shares are accounted for on an amortized cost basis at the net asset value calculated in accordance with IFRS. The change in the net assets attributable to Management Shares, other than that arising from share issuances or conversions, is recognized in the statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts recognized in the Financial Statements and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have a significant effect on the amounts recognized in the Financial Statements:

Assessment of Investment Management Agreement as an executory contract

The Company classifies the IMA as an executory contract. Under paragraph 3 of IAS 37, "executory contracts" are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. The objective of IAS 37 is to ensure, inter alia, that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets. The Board has determined that the IMA meets the definition of an executory contract in that: it is a contract for the performance of services, it imposes continuing obligations on each party, and it has been entered into for a renewable term.

Under the IMA, the services that the Company contracted for consist of investment management services to be delivered by the Investment Manager. The Investment Manager has sole authority to make investments on behalf of the Company throughout the term of the IMA. In consideration for those services, the Company has continuing obligations to pay fees, including performance fees crystallizing annually on December 31 (if any). See Note 15 - Investment Management Agreement -- Fees, Performance Fees And Termination. As explained in Note 15, the performance fee is made up of three components including the Potential Offset Amount (as defined in Note 15). In the Company's judgment these components constitute a single unit of account because no component is payable without the others being payable, the components are settled as a single amount and it is not possible to segregate the different services provided by the

Company and attribute them to the different components of the performance fee.

The IMA is automatically renewable each December 31 for one year. The IMA is terminable (a) at December 31 of any year by each party upon four months' prior notice (subject, in the case of termination by the Company, to shareholder approval requiring a 66 2/3% majority by voting power of the outstanding shares and a 66 2/3% majority of the outstanding Public Shares, as prescribed by the Company's Articles of Incorporation) or (b) at any time if the other party liquidates, a receiver or liquidator or administrator is appointed in respect of the other party's assets or the other party commits a material breach that remains uncured for more than 30 days after notice thereof. The Company considers that its termination rights are substantive. In the event that the IMA is terminated, the Company is only liable for performance fees up to the date of termination and the Investment Manager cannot recover any offset amount (except to the extent that it is part of the performance fee).

In its application of IAS 37, the Board has determined that payment of performance fees is entirely dependent on performance of services under the IMA and on the Company's profitability generated by those services (subject to standard high water mark arrangements). Accordingly, those fees (including the Potential Offset Amount component of performance fees) arise and are recognized as the services are performed by the Investment Manager and the Company earns net profits (if any), and the Company accrues a provision for performance fees over the applicable period based on its net profits (after recovery of any loss carry forward amount). The Board has assessed that in this manner, the timing of recognizing the Company's profits appropriately matches the timing of recognizing the Company's obligation to pay fees that may be triggered by those profits.

The Company also assessed whether the Potential Offset Amount gave rise to a financial liability under the requirements to record contingent settlement obligations in IAS 32 paragraph 25. The Company concluded that no financial liability arises until December 31 of each year, at which point the performance fee including the offset amount crystallizes, because the arrangements only give rise to a financial asset for the Investment Manager at that point.

Assessment of Company investment as structured entity

Pershing Square VI, L.P. ("PS VI LP") and Pershing Square VI International, L.P. ("PS VI Intl"), each feeder funds to Pershing Square VI Master, L.P., all of which operate collectively as a co-investment vehicle investing primarily in securities of (or otherwise seeking to be exposed to the value of securities issued by) Automatic Data Processing, Inc. ("ADP"), commenced operations on July 24, 2017 and are affiliated investment funds (collectively "PS VI"). As of December 31, 2018, the Company held an investment in each of PS VI LP and PS VI Intl. As of December 31, 2017, the Company only held an investment in PS VI Intl. These investments are reflected under financial assets at fair value through profit or loss in the statement of financial position.

All realized and unrealized gains and losses from the Company's investments in PS VI are reflected in the statement of comprehensive income for the years ended 2018 and 2017. The maximum exposure to loss from these investments at year end were equal to the amount of the Company's investments in PS VI on such dates. The Company has not provided, and does not intend to provide, any financial or other support to these unconsolidated structured entities. See Note 7 for the discussion on the fair value measurement and Note 16 for related party transactions regarding the Company's investments in PS VI.

IFRS 12 defines a structured entity as an entity that has been designed so that voting or other similar rights of the investors are not the dominant factor in deciding who controls the entity. The Company has assessed whether the PS VI funds should be classified as structured entities. The Company has considered the terms of the investment management agreement between the PS VI funds and the Investment Manager and the voting and redemption rights of the PS VI investors, including their rights to remove the Investment Manager, and has determined that the dominant factor of control of PS VI is the PS VI funds' contractual agreement with the Investment Manager.

The Company, therefore, has concluded that PS VI are structured entities.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the Financial Statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Fair Value of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined by the Investment Manager using prices obtained from counterparties or independent third-party pricing service/ valuation agent. The independent third-party pricing service/ valuation agent utilizes proprietary models to determine fair value. The valuation agents' modeling may consider, but is not limited to, the following inputs: amount and timing of cash flows, current and projected financial performance, volatility of the underlying securities' stock prices, dividend yields and/or interest rates. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. The models are calibrated regularly and tested for validity using prices from observable current market transactions in the same instrument (without modification or repackaging) or based on available observable market data.

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The Company has adopted IFRS 9 as of its effective date of January 1, 2018. Based on the Company's assessment, the implementation of this new standard does not have a significant impact on the Company's Financial Statements. The impact of the rule change, which has not impacted the prior year numbers presented comparatively in the Company's Financial Statements, is reflected in the numbers presented throughout the Annual Report.

i) Classification and measurement

The Company will continue to measure all investments in securities and derivatives at fair value through profit or loss in accordance with the SPPI test as required under IFRS 9. As discussed further in Note 18, the Bonds are held at amortized cost.

ii) Impairment

IFRS 9 requires the Company to record expected credit losses on its trade receivables, either on a 12-month or lifetime basis. Given the limited exposure of the Company to credit risk, this amendment has not had a material impact on the Financial Statements. The Company only holds trade receivables with no financing component and which have maturities of less than 12 months at amortized cost and therefore has adopted an approach similar to the simplified approach to expected credit loss.

iii) Hedge accounting

The Company does not currently designate any hedges as effective hedging relationships which qualify for hedge accounting, therefore this does not impact the Financial Statements.

Impact of adoption of IFRS 9

The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on January 1, 2018, however, the Company has chosen to take advantage of the option not to restate comparatives. Therefore, the 2017 figures are presented and measured under IAS 39.

Those items previously classified as held for trading at fair value through profit or loss are now classified as fair value through profit or loss. Those items previously classified as loans and receivables and other financial liabilities are now classified as amortized cost.

IFRS 9 has not resulted in changes in the carrying amount of the Company's financial instruments due to changes in measurement categories. All financial assets that were classified as fair value through profit or loss under IAS 39 are still classified as fair value through profit or loss under IFRS 9. All financial assets that were classified as loans and receivables and measured at amortized cost continue to be so measured.

5. SEGMENT INFORMATION

In accordance with IFRS 8: Operating Segments, it is mandatory for the Company to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance.

Management information for the Company as a whole is provided internally to the Directors for decision-making purposes. The Directors' decisions are based on a single integrated strategy and the Company's performance is evaluated on an overall basis. The Company has a portfolio of long and occasionally short investments that the Board and Investment Manager believe exhibit significant valuation discrepancies between current trading prices and intrinsic business value, often with a catalyst for value recognition. Therefore, the Directors are of the opinion that the Company is engaged in a single economic segment of business for all decision-making purposes. The financial results of this segment are equivalent to the results of the Company as a whole.

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss:

As of December 31	2018	2017
Investments in securities	$ 4,475,040,071	$ 3,140,815,503
Derivative financial instruments	61,913,945	744,454,840
Financial assets at fair value through profit or loss	**$ 4,536,954,016**	**$ 3,885,270,343**

Financial liabilities at fair value through profit or loss:

As of December 31	2018	2017
Derivative financial instruments	$ 144,701,338	$ 6,192,314
Financial liabilities at fair value through profit or loss	**$ 144,701,338**	**$ 6,192,314**

Net changes in fair value of financial assets and financial liabilities through profit or loss:

For the years ended December 31	2018			2017		
	Realized	Unrealized	Total Gains/(Losses)	Realized	Unrealized	Total Gains/(Losses)
Financial assets at fair value through profit or loss	$ 217,745,252	$ (89,184,927)	$ **128,560,325**	$ (1,415,516,018)	$ 1,515,299,610	$ **99,783,592**
Financial liabilities at fair value through profit or loss	–	–	–	(132,101,825)	(63,160,453)	**(195,262,278)**
Derivative financial instruments	89,849,338	(285,427,449)	**(195,578,111)**	73,779,646	(26,626,468)	**47,153,178**
Net changes in fair value	$ 307,594,590	$ (374,612,376)	$ **(67,017,786)**	$ (1,473,838,197)	$ 1,425,512,689	$ **(48,325,508)**

7. FAIR VALUE OF ASSETS AND LIABILITIES

Fair Value Hierarchy

IFRS 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgment and considers factors specific to the asset or liability. Financial instruments are recognized at fair value and categorized in the following table based on:

Level 1 – Inputs are unadjusted quoted prices in active markets at the measurement date. The assets and liabilities in this category will generally include equities listed in active markets, treasurys (on the run) and listed options.

Level 2 – Inputs (other than quoted prices included in Level 1) are obtained directly or indirectly from observable market data at the measurement date. The assets and liabilities in this category will generally include fixed income securities, OTC options, total return swaps, credit default swaps, foreign currency forward contracts and certain other derivatives. Also, included in this category are the Company's investments in affiliated entities valued at net asset value, which can be redeemed by the Company as of the measurement date, or within 90 days of the measurement date.

Level 3 – Inputs, including significant unobservable inputs, reflect the Company's best estimate of what market participants would use in pricing the assets and liabilities at the measurement date. The assets and liabilities in this category will generally include private investments and certain other derivatives.

Recurring Fair Value Measurement of Assets and Liabilities
(in thousands)

As of December 31	2018				2017			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:								
Equity Securities (Designated at Fair Value):								
Common Stock:								
Business Services	$ –	$ –	$ –	$ –	$ 449,085	$ –	$ –	$ 449,085
Chemicals	281,274	–	–	281,274	171,225	–	–	171,225
Consumer Products	–	–	–	–	503,835	–	–	503,835
Financial Services	84,556	–	–	84,556	207,627	–	–	207,627
Hospitality	612,222	–	–	612,222	–	–	–	–
Industrials	416,053	–	–	416,053	–	–	–	–
Real Estate Development and Operating	–	–	–	–	271,399	–	–	271,399
Restaurant	1,965,417	–	–	1,965,417	1,269,811	–	–	1,269,811
Retail	640,851	–	–	640,851	–	–	–	–
Preferred Stock:								
Financial Services	52,895	123	–	53,018	10,983	30	–	11,013
Investment in Affiliated Entities	–	421,649[3]	–	421,649	–	256,821[3]	–	256,821
Derivative Contracts (Held for Trading):								
Currency Call/Put Options Purchased	–	–	–	–	–	131[1]	–	131
Equity Options Purchased:								
Business Services	–	57,510[1]	–	57,510	–	319,031[1]	–	319,031
Consumer Products	–	–	–	–	–	367,196[1]	–	367,196
Index Options Purchased	–	–	–	–	–	402[1]	–	402
Foreign Currency Forward Contracts	–	4,404[1]	–	4,404	–	–	–	–
Total Return Swaps:								
Financial Services	–	–	–	–	–	35,401[2]	–	35,401
Real Estate Development and Operating	–	–	–	–	–	22,294[2]	–	22,294
Total	$ **4,053,268**	$ **483,686**	$ –	$ **4,536,954**	$ **2,883,965**	$ **1,001,306**	$ –	$ **3,885,271**

Recurring Fair Value Measurement of Assets and Liabilities (continued)
(in thousands)

As of December 31	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial Liabilities:								
Derivative Contracts (Held for Trading):								
Foreign Currency Forward Contracts	$ –	$ –	$ –	$ –	$ –	$ 741[1]	$ –	$ 741
Total Return Swaps:								
Consumer Products	–	–	–	–	–	488[2]	–	488
Financial Services	–	49,740[2]	–	49,740	–	4,964[2]	–	4,964
Real Estate Development and Operating	–	94,961[2]	–	94,961	–	–	–	–
Net assets attributable to management shareholders	–	–	86,046[4]	86,046	–	–	156,268[4]	156,268
Total	$ –	$ **144,701**	$ **86,046**	$ **230,747**	$ –	$ **6,193**	$ **156,268**	$ **162,461**

(1) Level 2 financial instruments may include OTC currency call/put options, equity options, equity forwards and foreign currency forward contracts that are fair valued by the Investment Manager using prices received from an independent third-party pricing service. The fair values of these financial instruments may reflect, but are not limited to, the following inputs by the independent third-party pricing service: current market and contractual prices from market makers or dealers, volatilities of the underlying financial instruments and/or current foreign exchange forward and spot rates. The independent third-party pricing service uses widely recognized valuation models for determining fair values of OTC derivatives. The most frequently applied valuation techniques include forward pricing and option models, using present value calculations. The significant inputs into their valuation models are market observable and are included within Level 2.
(2) Level 2 financial instruments include total return swap contracts that are fair valued by the Investment Manager using market observable inputs. The fair values of these financial instruments may reflect, but are not limited to, the following inputs: market price of the underlying security, notional amount, expiration date, fixed and floating interest rates, payment schedules and/or dividends declared.
(3) This figure relates to the Company's investments in PS VI as of the years ended 2018 and 2017, as discussed in Note 16. The instruments underlying the Company's investments in PS VI included 43.27% of Level 1 financial instruments, 56.68% of Level 2 financial instruments and 0.05% of other assets and liabilities that are outside the scope of IFRS 13 as of the year ended 2018 and 46.05% of Level 1 financial instruments, 53.01% of Level 2 financial instruments and 0.94% of other assets and liabilities that are outside the scope of IFRS 13 as of the year ended 2017. The level of the underlying instruments had no impact in the level used for the investment held by the Company. See fair value measurement discussion in Note 2 for the Company's valuation policy related to investments in affiliated entities.
(4) Net assets attributable to management shareholders are classified as Level 3 and are valued based on their net asset value which approximates carrying value. In assessing the appropriateness of net asset value as a basis for fair value, consideration is given to the need for adjustments to the net asset value based on a variety of factors including liquidity and the timeliness and availability of accurate financial information. No such adjustments were deemed necessary. The movements for the year are disclosed in the statement of changes in net assets attributable to management shareholders.

The Company's cash and cash equivalents and short-term receivables and payables are recorded at carrying value which approximates fair value. The Bonds are classified as Level 1 financial liabilities and the fair value of the Bonds is discussed further in Note 18.

Some of the Company's investments in Level 1 securities represent a significant proportion of the Company's portfolio. If such investments were sold or covered in their entirety, it might not be possible to sell them at the quoted market price which IFRS requires to be used in determining their fair value. Many factors affect the price that could be realized for large investments. The Investment Manager believes that it is difficult to accurately estimate the potential discount or premium to the quoted market prices that the Company would receive or realize if investments that represent a significant proportion of the Company's portfolio were sold or covered.

Transfers Between Levels

Transfers between levels during the period are determined and deemed to have occurred at each financial statement reporting date. There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements of material significance since the last financial statement reporting date.

Level 3 Reconciliation

The following table summarizes the change in the carrying amounts associated with Level 3 investments for the year ended 2017.

	Warrants
Balance at December 31, 2016	**$ 44,660,268**
Transfer*	(49,193,147)
Total gains and losses in profit or loss	4,532,879
Balance at December 31, 2017	**$ –**
Balance at December 31, 2018	**$ –**

*During the year ended December 31, 2017, the transfer from Level 3 to Level 1 related to the cashless conversion of warrants to common stock shares of The Howard Hughes Corporation.

All gains and losses from Level 3 securities during the year would be recognized in net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss in the statement of comprehensive income, if any. The Company did not hold Level 3 investments as of the years ended 2017 and 2018.

8. DERIVATIVE CONTRACTS

In the normal course of business, the Company enters into derivative contracts for investment purposes. These instruments are subject to various risks, similar to non-derivative instruments, including market, credit and liquidity risk (see Note 13). The Company manages these risks on an aggregate basis along with the other risks associated with its investing activities as part of its overall risk management strategy.

The Company's derivative trading activities are primarily the purchase and sale of OTC and listed options, equity forwards, credit default swaps, total return swap contracts and foreign currency options and forward contracts. All derivatives are reported at fair value (as described in Note 2) in the statement of financial position. Changes in fair value are reflected in the statement of comprehensive income.

Total Return Swaps

Total return swap contracts represent agreements between two parties to make payments based upon the performance of a certain underlying asset. The Company is obligated to pay or entitled to receive as the case may be, the net difference in the value determined at the onset of the swap versus the value determined at the termination or reset date of the swap. The amounts required for the future satisfaction of the swaps may be greater or less than the amounts recorded in the statement of financial position. The ultimate gain or loss depends upon the prices of the underlying asset(s) on settlement date.

Credit Default Swaps

A credit default swap contract represents an agreement that one party, the protection buyer, will pay a fixed fee, the premium, in return for a payment by the other party, the protection seller, contingent upon a specified credit event relating to an underlying reference obligation. While there is no credit event, the protection buyer pays the protection seller a quarterly fixed premium. If a specified credit event occurs, there is an exchange of cash flows and/or securities designed so that the net payment to the protection buyer reflects the loss incurred by holders of the referenced obligation in the event of its default. The ISDA agreement establishes the nature of the credit event and such events may include bankruptcy and failure to meet payment obligations when due.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Company purchases and sells put and call options through regulated exchanges and OTC markets. Options purchased by the Company provide the Company with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Company is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Company provide the purchaser the opportunity to purchase from or sell to the Company the underlying asset at an agreed-upon value either on or before the expiration of the option. In writing an option, the Company bears the market risk of an unfavorable change in the financial instrument underlying the written option. The exercise of an option written by the Company could result in the Company buying or selling a financial instrument at a price higher or lower than the current market value, respectively. The maximum payout for written put options is limited to the number of contracts written and the related strike prices, and the maximum payout for written call options (which could be unlimited) is contingent upon the market price of the underlying security at the date of a payout event. At the years ended 2018 and 2017, the Company had no written options.

Equity Forwards

An equity forward involves a commitment by the Company to purchase or sell equity securities for a predetermined price, with payment and delivery of the equity securities at a predetermined future date.

Currency Options

Currency options operate as described under Options with the underlying asset being a notional amount of a currency that will be bought or sold in the future for a specified amount of another currency (the strike price).

Currency Forwards

A foreign currency forward contract is a commitment to purchase or sell a non-USD currency on a future date at a negotiated forward exchange rate. Foreign currency forward contracts are used for trading purposes and may hedge the Company's exposure to changes in foreign currency exchange rates on its non-U.S. portfolio holdings.

The following table shows the fair values of derivative financial instruments recorded as assets or liabilities as of December 31, 2018 and December 31, 2017, together with their notional amounts (or shares, when applicable). The notional amount, which is recorded on a gross basis, is the amount of a derivative's underlying asset, reference rate or index, and is the basis upon which changes in the value of derivatives are measured. The notional amounts and shares indicate the volume outstanding at the reporting dates and are indicative of neither the market risk nor the credit risk.

Fair Value of Derivative Financial Instruments

As of December 31	2018		2017	
	Fair Value	Notional/Shares	Fair Value	Notional/Shares
Derivatives primarily held for trading purposes				
Assets				
Equity options purchased	$ 57,510,420	862,096 #	$ 686,227,695	29,330,970 #
Index options purchased	–	–	401,528	53,537 ^
Total return swaps	–	–	57,694,708	35,199,930 #
Total Assets	**$ 57,510,420**		**$ 744,323,931**	
Liabilities				
Total return swaps	$ 144,701,338	43,649,572 #	$ 5,451,422	17,031,076 #
Derivatives primarily held for risk management purposes				
Assets				
Currency call/put options purchased	$ –	–	$ 130,909	$ 266,615,000 ‡
Foreign currency forward contracts	4,403,525	$ 259,082,008 ‡	–	–
Total Assets	**$ 4,403,525**		**$ 130,909**	
Liabilities				
Foreign currency forward contracts	$ –	–	$ 740,892	$ 324,154,006 ‡

‡ - represents notional value (in USD)
# - represents number of underlying equity shares
^ - represents number of contracts

The table below summarizes gains or losses from the Company's derivative trading activities for December 31, 2018 and December 31, 2017 included in net gain/(loss) on financial assets and financial liabilities.

Derivatives for Trading Activities	Year Ended 2018 Net Gain/(Loss)	Year Ended 2017 Net Gain/(Loss)
Credit Default Swaps	$ 31,962	$ –
Currency Call/Put Options	231,157	(13,049,037)
Equity Forwards	–	(12,799,496)
Equity Options	(32,234,811)	45,451,271
Foreign Currency Forward Contracts	22,753,476	(21,168,161)
Index Options	2,969,543	(5,631,370)
Total Return Swaps	(189,329,438)	56,771,295
Warrants	–	(2,421,324)
Total Net Gain/(Loss)	**$ (195,578,111)**	**$ 47,153,178**

Offsetting of Derivative Assets and Liabilities

IFRS 7 requires an entity to disclose information about offsetting rights and related arrangements. The disclosures provide users with information to evaluate the effect of netting arrangements on an entity's financial position. The disclosures are required for all recognized financial instruments that could be offset in accordance with IAS 32 Financial Instruments Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with IAS 32.

The table below displays the amounts by which the fair values of derivative assets and liabilities could be offset in the statement of financial position as a result of counterparty netting. Collateral pledged/received represents the amounts by which derivative assets and liabilities could have been further offset for financial presentation purposes if the Company did not include collateral amounts in due from/to brokers in the statement of financial position.

Offsetting of Derivative Assets and Liabilities

As of December 31, 2018	Gross Amounts[1]	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Offsetting Permitted Under ISDA Netting Agreements	Cash Collateral Pledged/ (Received)[2]	Net Amount
Derivative Assets	$ 57,510,420	$ –	$ 57,510,420	$ –	$ (57,510,420)	$ –
Total	$ 57,510,420	$ –	$ 57,510,420	$ –	$ (57,510,420)	$ –
Derivative Liabilities	$(144,701,338)	$ –	$(144,701,338)	$ –	$ 144,701,338	$ –
Total	$(144,701,338)	$ –	$(144,701,338)	$ –	$ 144,701,338	$ –

As of December 31, 2017	Gross Amounts[1]	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Offsetting Permitted Under ISDA Netting Agreements	Cash Collateral Pledged/ (Received)[3]	Net Amount
Derivative Assets	$ 744,454,840	$ –	$ 744,454,840	$ (5,451,422)	$(734,284,358)	$4,719,060
Total	$ 744,454,840	$ –	$ 744,454,840	$ (5,451,422)	$(734,284,358)	$4,719,060
Derivative Liabilities	$ (5,451,422)	$ –	$ (5,451,422)	$ 5,451,422	$ –	$ –
Total	$ (5,451,422)	$ –	$ (5,451,422)	$ 5,451,422	$ –	$ –

(1) The gross amounts include derivative assets and liabilities which the Company has entered into with an ISDA counterparty and are collateralized.
(2) In addition, the Company has also received collateral of approximately $29.1 million and posted collateral of approximately $220.0 million (net of pending settlements) that is unable to be reflected in the table above due to disclosure requirements. Included within the collateral available for offset shown above are amounts offset against balances due from/to brokers as disclosed in Note 13.
(3) In addition, the Company has also received collateral of approximately $38.3 million and posted collateral of approximately $489.2 million (net of pending settlements) that is unable to be reflected in the table above due to disclosure requirements. Included within the collateral available for offset shown above are amounts offset against balances due from/to brokers as disclosed in Note 13.

9. TRADE AND OTHER RECEIVABLES/PAYABLES

The following is a breakdown of the Company's trade and other receivables/payables as stated in the statement of financial position.

As of December 31		2018		2017
Trade and other receivables				
Dividends receivable	$	6,109,276	$	12,048,233
Interest and other receivables		660,987		6,472,060
	$	6,770,263	$	18,520,293

As of December 31		2018		2017
Trade and other payables				
Interest payable	$	151,232	$	199,851
Legal reserve (see Note 14)		–		86,396,342
Other payables		955,821		4,524,942
	$	1,107,053	$	91,121,135

10. CASH AND CASH EQUIVALENTS

The following is a breakdown of the Company's cash and cash equivalents as stated in the statement of financial position.

As of December 31		2018		2017
Cash and cash equivalents				
Cash at banks	$	125,039	$	116,832
U.S. Treasury money market fund		201,121,137		1,081,986,042
	$	201,246,176	$	1,082,102,874

As of December 31, 2018, money market fund investments in Goldman Sachs Financial Square Treasury Instruments Fund and BlackRock Liquidity Funds Treasury Trust Fund had fair values of $150,486,826 and $50,634,311, respectively.

11. SHARE CAPITAL

Authorized and Issued Capital

The Board of the Company is authorized to issue an unlimited number of shares, classes of shares or series as determined by the Board. All of the Company's share classes participate pro-rata in the profits and losses of the Company based upon the share class's ownership of the Company at the time of such allocation.

The Company currently has outstanding the Public Shares, the Special Voting Share and the Management Shares.

The Company's Articles of Incorporation, in accordance with the Listing Rules, incorporate pre-emption rights in favor of existing Shareholders on the issue or sale from treasury of new equity securities for cash (or to issue any rights to subscribe for or convert equity securities into ordinary shares of the Company). At the 2018 Annual General Meeting, the Company proposed and shareholders passed a special resolution to approve the disapplication of the pre-emption rights contained in the Articles of Incorporation so that the Board has the authority to allot and issue (or sell from treasury) 23,465,437 Public Shares (being equivalent to 10% of the Public Shares in issue as at the latest practicable date prior to the date of publication of the 2018 Notice of Annual General Meeting) and 850,079 Management Shares (being equivalent to 10% of the Management Shares in issue as at the latest practicable date prior to the date of publication of the 2018 Notice of Annual General Meeting). Such disapplication for issuances of 10% or less of outstanding equity is commonly requested by issuers listed on the LSE. The Company intends to propose the same special resolution at this year's AGM.

In connection with the listing of the Public Shares on the LSE, the Company exchanged the Class B Shares held by PS Holdings Independent Voting Company Limited ("VoteCo"), a limited liability company with the sole objective to vote in the best interest of the Company's shareholders as a whole, for a Special Voting Share. The Special Voting Share at all times carries 50.1% of the aggregate voting power in the Company (except for certain matters set forth in the Listing Rules on which it may not vote). The Investment Manager has no affiliation with VoteCo. VoteCo is wholly owned by a trust established for the benefit of one or more charitable organizations.

The Investment Manager waived the management fee and/or the performance fee with respect to Management Shares, which were issued to certain members, partners, officers, managers, employees or affiliates of the Investment Manager and certain other shareholders.

Lock-up

In connection with the Company's IPO, Mr. Ackman and other members of the management team and officers of the Investment Manager have each entered into a lock-up arrangement with the Company (the "Lock-Up Deed") whereby their aggregate Management Shares held at the time of the IPO are subject to a lock-up of ten years commencing from October 1, 2014, other than sales of Management Shares (i) required to pay taxes on income generated by the Company; (ii) required due to regulatory constraints; or (iii) following separation of employment from the Investment Manager. Management Shares subject to the Lock-Up Deed may from time to time be transferred to affiliates, provided that the transferee agrees to be subject to the remaining lock-up period. On August 9, 2018, the Company amended the Lock-Up Deed to clarify that parties to the Lock-Up Deed may sell the specific Management Shares they held at the time of the IPO, so long as they continue to hold at least as many Management Shares in the aggregate as they held at the time of the IPO (or, if the Management Shares have been converted, so long as they hold at least as many shares of the class such Management Shares were converted into). As of December 31, 2018, the equivalent of 7,343,688 Management Shares were subject to the Lock-Up Deed.

As of December 31, 2018, the total Management Shares outstanding were 4,626,817 (2017: 8,500,796) with a value of $86,046,388 (2017: $156,268,350).

Share Conversion

Subject to the terms of the lock-up agreements, holders of Management Shares are entitled to convert into Public Shares at the current NAV as of the last day of each calendar month upon such days' prior written notice to the Company as the Board may determine.

As a result of amendments to the Articles approved by shareholders at the 2018 AGM, Public Shares acquired by persons who are otherwise eligible to hold Management Shares can be converted into Management Shares, on a net asset value for net asset value basis as at each month end. The Management Shares resulting from these conversions are not subject to the lock-up described above.

During the year ended December 31, 2018, holders of Management Shares converted 28,152,249 Management Shares into 30,193,895 Public Shares and converted 25,960,460 Public Shares into 24,278,270 Management Shares.

Voting Rights

The holders of Public Shares have the right to receive notice of, attend and vote at general meetings of the Company.

Each Public Share and Management Share carries such voting power so that the aggregate issued number of Public Shares and Management Shares carries 49.9% of the total voting power of the aggregate number of voting shares in issue. Each Public Share carries one vote and each Management Share carries such voting power so that the total voting power of the Public Shares and Management Shares are pro-rated in accordance with their respective net asset values. The Special Voting Share carries 50.1% of the aggregate voting power in the Company. The Special Voting Share and the Management Shares may not vote on certain matters specified in the Listing Rules as discussed below.

Specified Matters

In order to comply with the Listing Rules, the Company was required to make certain revisions to its shareholder voting structure. The Listing Rules permit only holders of the Public Shares to vote on certain matters (the "Specified Matters").

As a result of such rules, while the Special Voting Share carries, in the aggregate, such number of votes as is equal to 50.1% of the total voting power of the Company (subject to some limited exceptions regarding matters for which a different rule is stated in the Articles of Incorporation or pursuant to applicable law), the Special Voting Share may not vote on Specified Matters. In addition, while the Public Shares and Management Shares carry voting rights such that the aggregate number of issued Public Shares and Management Shares together carry 49.9% of the total voting power of the Company (subject to some limited exceptions regarding matters for which a different rule is stated in the Articles of Incorporation or pursuant to applicable law) the Management Shares may not vote on Specified Matters.

Each of the Specified Matters is set forth in the Listing Rules.

Distributions

The Board may at any time declare and pay dividends (or interim dividends) based upon the financial position of the Company. No dividends shall be paid in excess of the amounts permitted by the Companies (Guernsey) Law, 2008 and without the prior consent of the Board and the Investment Manager. No dividends have been declared or paid for the years ended 2018 and 2017.

On February 13, 2019, the Company announced that it had initiated a quarterly interim dividend of $0.10 per Public Share, representing a yield of 2.5% based on the closing price of $15.70 of PSH Public Shares on February 12, 2019. Please see "Dividends" in the Report of the Directors for more information about the dividend.

Capital Management

The Company's capital currently consists of Public Shares which are listed on Euronext Amsterdam and the LSE, Management Shares which can be converted into Public Shares, and the Special Voting Share. The proceeds from the Bonds which were issued on June 26, 2015 and are listed on the Irish Stock Exchange are being used to make investments in accordance with the Company's Investment Policy.

The Company's general objectives for managing capital are:

- To continue as a going concern;
- To maximize its total return primarily through the capital appreciation of its investments; and
- To minimize the risk of an overall permanent loss of capital.

To the extent the Investment Manager deems it advisable and provided that there are no legal, tax or regulatory constraints, the Company is authorized to manage its capital through various methods, including, but not limited to: (i) repurchases of Public Shares and (ii) further issuances of shares, provided that the Board only intends to exercise its authority to issue new shares if such shares are issued at a value not less than the estimated prevailing NAV per share (or under certain other specified circumstances). At the 2018 AGM, shareholders renewed the Company's authority to engage in share buybacks up to a maximum of 14.99% of the Public Shares in issue and, as part of this authority, approved the Company Tender. The Company launched the Company Tender on April 25, 2018 and closed the Company Tender on May 10, 2018. A total of 22,271,714 Public Shares were acquired by the Company in the Company Tender at a price of $13.47 per Public Share and subsequently were cancelled.

The Company intends to propose that shareholders renew its general share buyback authority at the 2019 Annual General Meeting of the Company (the "AGM"), to allow the Company to engage in share buybacks up to a maximum of 14.99% of the Public Shares in issue. If approved by shareholders and depending on market conditions, the Company's available capital and other considerations, the Company may decide to utilize the share buyback authority to make further acquisitions of Public Shares in the market.

Also, as discussed on page 78, the Investment Manager has also imposed a ten-year lock-up on certain holders of Management Shares, subject to certain exceptions. This lock-up does not affect the capital resources available to the Company.

The Public Shares, Management Shares and Special Voting Share transactions for the years ended December 31, 2018 and December 31, 2017 were as follows:

	Management Shares	Public Shares	Special Voting Share
Shares as of December 31, 2017	**8,500,796**	**234,716,810**	**1**
Issuance of Shares	–	–	–
Share Buybacks*	–	(22,334,151)	–
Conversion Out	(28,152,249)	(25,960,460)	–
Conversion In	24,278,270	30,193,895	–
Shares as of December 31, 2018	**4,626,817**	**216,616,094**	**1**

	Management Shares	Public Shares	Class B Shares	Special Voting Share
Shares as of December 31, 2016	**8,500,796**	**240,128,546**	**5,000,000,000**	–
Issuance of Shares	–	–	–	–
Share Buybacks	–	(5,411,736)	–	–
Conversion Out	–	–	(5,000,000,000)	–
Conversion In	–	–	–	1
Shares as of December 31, 2017	**8,500,796**	**234,716,810**	–	**1**

*Share Buybacks include 62,437 shares purchased in January 2018 as part of the share buyback program that commenced in May 2017 and terminated January 2, 2018 and 22,271,714 shares purchased in the Company Tender in May 2018.

12. INTEREST INCOME AND EXPENSE

The following is a breakdown of the Company's interest income and expense as stated in the statement of comprehensive income.

Interest Income	Year Ended 2018	Year Ended 2017
Cash	$ 209,265	$ 157,926
Treasury bill discount accretion	847,552	–
Short market rebate income	48,676	–
Due from brokers on collateral posted	4,064,512	982,667
	$ 5,170,005	**$ 1,140,593**

Interest Expense	Year Ended 2018	Year Ended 2017
Short market rebate fees	$ –	$ 4,985,280
Bond interest expense	54,929,255	54,823,788
Amortization of bond issue costs incurred as finance costs	2,054,988	2,051,043
Interest expense on securities sold, not yet purchased	–	472,210
Amortization of premiums on securities sold, not yet purchased	–	(266,064)
Due to brokers on collateral received	3,297,840	2,600,862
Cash	3,333	401
	$ 60,285,416	**$ 64,667,520**

13. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES

Risk Mitigation

The Investment Manager does not use formulaic approaches to risk management. Instead, risk management is integrated into the portfolio management process. The primary risk management tool is extensive research completed by the Investment Manager prior to an initial investment. The Investment Manager defines investment risk as the probability of a permanent loss of capital rather than price volatility. Factors considered by the Investment Manager in assessing long investment opportunities include, but are not limited to:

- The volatility/predictability of the business;
- Its correlation with macroeconomic factors;
- The company's financial leverage;
- The defensibility of the company's market position; and
- Its discount to intrinsic value.

The Investment Manager believes that the acquisition of a portfolio of investments, when acquired at a large discount to intrinsic value, provides a margin of safety that can mitigate the likelihood of an overall permanent loss of the Company's capital. The primary risks in the Company's portfolio are company specific risks which are managed through investment selection and due diligence.

The Investment Manager does not have a formulaic approach in evaluating correlations between investments, but is mindful of sector and industry exposures and other fundamental correlations between the businesses in which the Company invests.

The Investment Manager believes that an important distinguishing factor about the Company's portfolio (and the portfolios of the other PSCM-managed funds) as compared to most other hedge funds is that it does not generally use margin leverage.

At times, the Investment Manager has also invested in other investments that have materially different risk and reward characteristics. These investments – because of the circumstances surrounding the companies at the time of the investment, the highly leveraged nature of the businesses or assets, the relative illiquidity of the investment, and/or the structure of the Company's investment – have a materially greater likelihood of a potential permanent loss of capital for the funds. In light of this greater risk, the Investment Manager generally requires the potential for a materially greater reward if successful, and sizes the investments appropriately.

Refer to Principal Risks and Uncertainties for further information regarding principal risks faced by the Company (which are explicitly incorporated by reference into these Notes to Financial Statements).

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

Securities sold, not yet purchased, represent obligations of the Company to deliver the specified securities and, thereby, create a liability to purchase the security in the open market at prevailing prices. Accordingly, these transactions may result in additional risk as the amount needed to satisfy the Company's obligations may exceed the amount recognized in the statement of financial position.

The Company's derivative trading activities are discussed in detail in Note 8 and a portfolio of the derivatives held as of December 31, 2018 is presented in the Condensed Schedule of Investments on pages 92–93 (which is explicitly incorporated by reference into these Notes to Financial Statements).

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Generally, most financial assets decline in value when interest rates rise, and increase in value when interest rates decline. While nearly every one of the Company's investments is exposed to the economy to some degree, the Investment Manager attempts to identify companies for which increases or decreases in interest rates are not particularly material to the investment thesis. The Company does not generally hedge its interest rate exposure as the Investment Manager does not, generally, believe that hedging interest rate risk is a prudent use of capital.

The Company's investment in cash and cash equivalents has limited exposure to interest rate risk because the duration of these investments is less than 90 days. As of December 31, 2018 and December 31, 2017 cash and cash equivalents equaled $201,246,176 and $1,082,102,874, respectively. The Bonds have no interest rate risk as the interest rate is fixed and they are carried at amortized cost.

Currency Risk

The Company invests in financial instruments and enters into transactions that are denominated in currencies other than USD. Consequently, the Company is exposed to risks that the exchange rate of the USD relative to other foreign currencies may change in a manner that has an adverse effect on the fair value of future cash flows of that portion of the Company's financial assets or liabilities denominated in currencies other than USD.

The primary purpose of the Company's foreign currency economic hedging activities is to protect against the foreign currency exposure associated with investments denominated in foreign currencies. The Company primarily utilizes forward exchange contracts and currency options to hedge foreign currency denominated investments. Increases or decreases in the fair value of the Company's foreign currency denominated investments are partially offset by gains and losses on the economic hedging instruments. Also refer to the Condensed Schedule of Investments on pages 92–93 (which is explicitly incorporated by reference into these Notes to Financial Statements) for additional details of the Company's financial assets and liabilities.

The following tables show the currencies to which the Company had significant direct exposure at December 31, 2018 and December 31, 2017 on its financial assets and financial liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against USD on equity and on profit or loss with all other variables held constant.

Currency (2018)	Net Foreign Currency Exposure	Change in Currency Rate	Effect on Net Assets Attributable to all Shareholders and on Profit/(Loss) for the Year
CAD	$ 487,394,677	+5%	$ 26,941,961

Currency (2017)	Net Foreign Currency Exposure	Change in Currency Rate	Effect on Net Assets Attributable to all Shareholders and on Profit/(Loss) for the Year
CAD	$ 561,380,312	+4%	$ 25,239,674
EUR	$ 130,908	-2%	$ 277,013
EUR	$ 130,908	+2%	$ (98,914)

An equivalent decrease in each of the aforementioned currencies against USD, except for EUR, would have resulted in an equivalent but opposite impact.

Equity Price Risk

As explained in the Company's Prospectus, the Company's portfolio is highly concentrated, and may invest a significant proportion of its capital in one or a limited set of investments. A substantial majority of the Company's portfolio is typically allocated to 8 to 12 core holdings usually comprised of highly liquid, listed mid-to-large cap North American companies. Because the portfolio is highly concentrated and primarily invested in public equities (or derivative instruments referenced to public equities), fluctuations in equity prices are a significant risk to the portfolio. Refer to the Company Performance on page 2, Investment Manager's Portfolio Update on pages 15–21 and the Condensed Schedule of Investments on pages 92–93 (each of which is explicitly incorporated by reference into these Notes to Financial Statements) for quantitative and qualitative discussion of the Company's portfolio and additional details regarding the Company's financial assets and financial liabilities.

The following table indicates management's best estimate of the effect on the Company's net assets due to a possible change in equity prices with all other variables held constant.

Change in Equity Price (2018)	% Change in Net Assets Attributable to all Shareholders
+8%	+10%
-8%	-8%

Change in Equity Price (2017)	% Change in Net Assets Attributable to all Shareholders
+9%	+10%
-9%	-10%

The following table analyzes the Company's concentration of equity price risk in the Company's equity portfolio by geographical distribution (based on counterparties' place of primary listing or, if not listed, place of domicile).

As of December 31	2018	2017
North America	100%	100%
Total	**100%**	**100%**

The following table analyzes the Company's concentration of equity price risk in the Company's equity portfolio by industry sectors:

As of December 31	2018	2017
Restaurant	45 %	33 %
Industrials/Chemicals	16 %	4 %
Retail	14 %	–
Hospitality	14 %	–
Business Services	11 %	26 %
Financial Services	2 %	6 %
Real Estate Development and Operating	(2)%	8 %
Consumer Products (Long Exposure)	–	18 %
Consumer Products (Short Exposure)	–	5 %
Total	**100 %**	**100 %**

The Company's policy and the Investment Manager's approach to managing liquidity are to ensure, as much as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressful market conditions. The Company invests primarily in liquid, large-capitalization securities which, under normal market conditions, are readily convertible to cash. Less liquidity is tolerated in situations where the risk/reward trade-off is sufficiently attractive to justify the degree of illiquidity.

The following tables summarize the liquidity profile of the Company's financial assets and financial liabilities, cash and cash equivalents (including due to/from broker) and trade receivables and payables based on undiscounted cash flows:

Liquidity Risk

As of December 31, 2018	Less than 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
Assets						
Cash and cash equivalents	$ 201,246,176	$ –	$ –	$ –	$ –	$ 201,246,176
Due from brokers	361,646,991	–	–	–	–	361,646,991
Trade and other receivables	6,770,263	–	–	–	–	6,770,263
Financial assets at fair value through profit or loss:						
Investments in securities	3,717,032,065	652,313,788	93,532,757	12,161,461	–	4,475,040,071
Derivative financial instruments	46,046,114	15,867,831	–	–	–	61,913,945
Total Assets	**$ 4,332,741,609**	**$ 668,181,619**	**$ 93,532,757**	**$ 12,161,461**	$ –	**$ 5,106,617,446**
Liabilities						
Due to brokers	$ 67,510,000	$ –	$ –	$ –	$ –	$ 67,510,000
Due to Pershing Square, L.P.	24,783,576	–	–	–	–	24,783,576
Due to Pershing Square International, Ltd.	18,145,672	–	–	–	–	18,145,672
Trade and other payables	1,107,053	–	–	–	–	1,107,053
Bonds	27,500,000	–	–	27,500,000	1,165,000,000	1,220,000,000
Financial liabilities at fair value through profit or loss:						
Derivative financial instruments	24,474,390	47,836,280	65,207,738	7,182,930	–	144,701,338
Total liabilities excluding net assets attributable to management shareholders	163,520,691	47,836,280	65,207,738	34,682,930	1,165,000,000	1,476,247,639
Net assets attributable to management shareholders	–	73,055,454	–	–	12,990,934	86,046,388
Total Liabilities	**$ 163,520,691**	**$ 120,891,734**	**$ 65,207,738**	**$ 34,682,930**	**$ 1,177,990,934**	**$ 1,562,294,027**

Liquidity Risk

As of December 31, 2017	Less than 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
Assets						
Cash and cash equivalents	$ 1,082,102,874	$ –	$ –	$ –	$ –	$ 1,082,102,874
Due from brokers	710,597,200	–	–	–	–	710,597,200
Trade and other receivables	18,520,293	–	–	–	–	18,520,293
Financial assets at fair value through profit or loss:						
Investments in securities	1,256,829,640	970,258,925	704,973,766	201,088,652	7,664,520	3,140,815,503
Derivative financial instruments	308,222,699	339,701,429	74,804,925	21,096,200	629,587	744,454,840
Total Assets	**$ 3,376,272,706**	**$ 1,309,960,354**	**$ 779,778,691**	**$ 222,184,852**	**$ 8,294,107**	**$ 5,696,490,710**
Liabilities						
Due to brokers	$ 340,795,000	$ –	$ –	$ –	$ –	$ 340,795,000
Trade and other payables	91,121,135	–	–	–	–	91,121,135
Bonds	27,500,000	–	–	27,500,000	1,220,000,000	1,275,000,000
Financial liabilities at fair value through profit or loss:						
Derivative financial instruments	1,679,373	1,305,544	1,756,546	1,450,851	–	6,192,314
Total liabilities excluding net assets attributable to management shareholders	461,095,508	1,305,544	1,756,546	28,950,851	1,220,000,000	1,713,108,449
Net assets attributable to management shareholders	–	14,665,384	–	–	141,602,966	156,268,350
Total Liabilities	**$ 461,095,508**	**$ 15,970,928**	**$ 1,756,546**	**$ 28,950,851**	**$ 1,361,602,966**	**$ 1,869,376,799**

Although a majority of the Company's portfolio comprises liquid, large-capitalization securities, there may be contractual or regulatory restrictions on trading, or "trading windows" imposed with respect to certain issuers for which the Investment Manager has board representation or is otherwise restricted. Although these limitations are considered in connection with the portfolio liquidation analysis, these restrictions are not taken into consideration when calculating the overall liquidity of the portfolio as such securities may be liquidated pursuant to, for example, an automatic purchase/sale plan or via a block trade. The Investment Manager believes that the appropriate metric for assessing portfolio liquidity is to calculate how many days it would require to liquidate a position assuming the Investment Manager were able to capture 20% of the trailing 90-day average trading volume. On a monthly basis, this metric is applied to the existing portfolio to assess how long it will take to divest the Company (and the other PSCM-managed funds) of its portfolio positions.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that is entered into with the Company, resulting in a financial loss to the Company. It arises principally from derivative financial assets, cash and cash equivalents, and balances due from brokers. In order to mitigate credit risk, the Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The Investment Manager negotiates its ISDA agreements to include bilateral collateral agreements and, in certain cases, tri-party agreements where collateral is held by a third party custodian. Thereafter the Investment Manager monitors exposure, performs reconciliations, and posts/receives cash or U.S. Treasury collateral to/from each of the Company's counterparties on a daily basis. The Company invests substantially all cash collateral received in U.S. Treasurys or short-term U.S. Treasury money market funds. In addition, from time to time, the Company purchases credit default swap contracts on the Company's counterparties as a form of credit protection. The Investment Manager prepares daily reports that set forth the Company's exposure (along with that of the other PSCM-managed funds) to each counterparty. Such reports include the credit default swap notional exposure, the net unhedged/(over hedged) exposure, initial margin posted and the net counterparty exposure. In addition, the Investment Manager reviews credit ratings reports on its counterparties on a weekly basis. Please refer to the Condensed Schedule of Investments on pages 92–93 (which is explicitly incorporated by reference into these Notes to Financial Statements) for additional details regarding the Company's financial assets and financial liabilities.

After taking into effect the offsetting permitted under IAS 32, the Company views its credit exposure to be $190,891,488 and $455,627,478 at December 31, 2018 and December 31, 2017, respectively, representing the fair value of derivative contracts in net asset position net of derivative contracts in net liability position and net of any collateral received by or given to counterparties. The Company may purchase credit default swap contracts to hedge against a portion of the Company's credit exposure to certain derivative counterparties. At December 31, 2018 and December 31, 2017, the Company held no credit default swap contracts.

The Company maintains its cash and cash equivalents position at major financial institutions. At times, cash balances may exceed federally insured limits and, as such, the Company has credit risk associated with such financial institutions. The cash and cash equivalents balances are reflected in the statement of financial position. At December 31, 2018 and December 31, 2017, cash was primarily invested in a U.S. Treasury money market fund with daily liquidity as disclosed in Note 10.

The Company's prime brokers are required to provide custody for the Company's securities and never lend out the Company's securities in excess of 140% of the debit balance that the prime broker extends to the Company as credit. The Company monitors its accounts to avoid running a debit balance for a significant period of time. Additionally, the Company has processes in place that allow it to quickly move securities from its prime brokers into a regulated bank entity which is not legally permitted to re-hypothecate client securities.

The following table analyzes the Company's cash and cash equivalents (2018: $201,246,176, 2017: $1,082,102,874), due from brokers (2018: $361,646,991, 2017: $710,597,200) and financial assets portfolio (2018: $4,536,954,016, 2017: $3,885,270,343) based on the underlying custodians' and counterparties' credit rating.

As of December 31	2018	2017
AAA	4%	19%
A	96%	81%
Total	**100%**	**100%**

The following tables reconcile the Company's due from brokers and due to brokers balances from a gross basis to a net basis under which they are presented on the statement of financial position.

As of December 31	2018	2017
Due from brokers		
Cash held at prime brokers	$ 17,221,405	$ 657,035,563
Gross ISDA collateral posted	316,185,037	678,665,245
Pending settlements	47,384,747	–
Netting of collateral allowable under ISDA agreements	(19,144,198)	(625,103,608)
	$ 361,646,991	**$ 710,597,200**

As of December 31	2018	2017
Due to brokers		
Gross ISDA collateral received	$ (86,654,198)	$ (772,623,608)
Pending settlements	–	(193,275,000)
Netting of collateral allowable under ISDA agreements	19,144,198	625,103,608
	$ (67,510,000)	**$ (340,795,000)**

14. COMMITMENTS AND CONTINGENCIES

PSH, PSCM, PS Fund 1, LLC and other related parties (the "Pershing Square Parties") and Valeant Pharmaceuticals International, Inc. and other related parties (the "Valeant Parties") were defendants in two class action lawsuits entitled In Re Allergan, Inc. Proxy Violation Securities Litigation, Case No. 8:14-cv-2001- DOC ("Stock Class Action"), and In re Allergan, Inc. Proxy Violation Derivatives Litigation, Case No. 2:17-cv-04776 DOC ("Derivatives Class Action"), both relating to the investment by the Pershing Square Parties in Allergan, Inc. ("Allergan"), and alleging violations of federal securities laws relating to trading in Allergan common shares and related derivatives.

During the year ended December 31, 2016, the Company reserved $29,176,480 towards any potential liability. On December 28, 2017, in consultation with counsel and expert mediators, defendants entered into full settlements in principle in both cases for a total payment of $290 million, of which the Company and three affiliated entities managed by the Investment Manager (the "Core Funds") would bear $193.75 million. The Company's allocable share of the Core Funds' total amount was $86,396,342, leading it to reserve an additional $57,219,862 as of December 31, 2017. These reserves are included in Trade and Other Payables in the Company's statement of financial position as of December 31, 2017. The settlements were paid by the Core Funds during January 2018 and were released from escrow after the settlement was approved by the court in August 2018.

Other than above and as disclosed in Note 8, there were no other commitments or contingencies as of December 31, 2018 and December 31, 2017.

15. INVESTMENT MANAGEMENT AGREEMENT — FEES, PERFORMANCE FEES AND TERMINATION

The Investment Manager receives management fees and performance fees, if any, from the Company pursuant to the IMA.

Management Fee

The Investment Manager receives a quarterly management fee payable in advance each quarter in an amount equal to 0.375% (1.5% per annum) of the net assets (before any accrued performance fee) attributable to fee-paying shares. The fee-paying shares of the Company are the Public Shares and the Special Voting Share.

For the years ended December 31, 2018 and 2017, the Investment Manager earned management fees from the Company of $52,391,923 and $63,211,761, respectively.

The Investment Manager has chosen to reduce the management fees paid by the Core Funds for eight consecutive quarters beginning with the management fee payable on April 1, 2018 by a total of $32.2 million. This amount is equal to the amount by which performance fees would have been reduced had Allergan-related settlement expenses been incurred in 2014 contemporaneously with gains from the Allergan investment. The reduced fees will be allocated among the Core Funds based upon the amount of settlement reserves previously recognized by the Core Funds at the year ended 2016 and the year ended 2017. As a result, the Company's management fees will be reduced by a total of $14.4 million, $5.4 million of which has already been allocated.

Performance Fee

Generally, the Investment Manager receives performance fees, annually and upon the payment of a dividend, in an amount equal to 16% of the net profits attributable to the fee-paying shares of the Company (the "16% performance fee") minus the Additional Reduction (defined below). The 16% performance fees paid in connection with dividends are pro-rated to reflect the ratio of the dividend to the Company's net asset value at the time the dividend is paid. These performance fees are defined as the "Variable Performance Fee" in the IMA. No Variable Performance Fee can be higher than the 16% performance fee, but it may, as a result of the Additional Reduction, be lower (although it can never be a negative amount).

The "Additional Reduction" is an amount equal to (i) the lesser of the 16% performance fee and the Potential Reduction Amount (defined below), offset (up to such lesser amount) by (ii) the then current portion of the Potential Offset Amount.

The "Potential Reduction Amount" is equal to (i) 20% of the aggregate performance fees and allocation earned by the Investment Manager and its affiliates in respect of the same calculation period on the gains of current and certain future funds managed by the Investment Manager or any of its affiliates plus (ii) if the Potential Reduction Amount for the previous calculation period exceeded the 16% performance fee, the excess amount (which is in effect carried forward).

The "Potential Offset Amount" refers to the fees and other costs of the offering and admission on Euronext Amsterdam of the Public Shares and the commissions paid to placement agents and other formation and offering expenses incurred prior to the IPO of the Company that were, in each case, borne by the Investment Manager pursuant to the IMA. The Potential Offset Amount will be reduced by each dollar applied to reduce the Additional Reduction, until it is fully reduced to zero.

The Potential Offset Amount equaled $120 million in the aggregate at the time of the IPO. As of December 31, 2018 and December 31, 2017, after giving effect to the offset of the Potential Reduction Amount in the year ended December 31, 2014, the Potential Offset Amount was approximately $100.8 million.

The Potential Offset Amount is not a Company obligation but instead is a component used in the calculation of the Variable Performance Fee. Thus, if the Company or the Investment Manager terminates the IMA or the Company liquidates and the Company pays the Variable Performance Fee that may crystallize in connection therewith, the Company has no obligation to pay any remaining portion of the Potential Offset Amount.

For the years ended December 31, 2018 and 2017, the Investment Manager did not earn any performance fee from the Company.

Since the Company had no net profits and thus no 16% performance fee accrued for the years ended December 31, 2018 and 2017, but the Potential Reduction Amount was $2.9 million and $2.9 million, respectively, in those years, those amounts will be carried forward to calculate the Additional Reduction and reduce any Variable Performance Fee in future years, subject to any offset by the Potential Offset Amount.

Termination

The IMA automatically renews annually, except that it may be terminated (a) as of December 31st of any year upon four months' prior written notice by either party, subject, in the case of termination by the Company, to approval by a 66 2/3% vote (by voting power) of the holders of the then outstanding voting shares of the Company, together with a 66 2⁄3% vote (by voting power) of the holders of the then outstanding Public Shares; and (b) in case of dissolution or liquidation of either party or if a receiver or provisional liquidator or administrator or similar officer is appointed over any of the assets of such party or if either party commits a material breach of its obligations under the IMA and such breach remains uncured for more than 30 calendar days after the notice thereof delivered to the party in breach by the other party in accordance with the IMA.

The termination of the IMA at any time will be a crystallization event, which will result in the Variable Performance Fee described above being payable.

16. RELATED PARTY DISCLOSURES

The relationship between the Company and the Investment Manager and the fees earned are disclosed in Note 15. In addition, the Investment Manager and related parties to the Investment Manager hold Management Shares, the rights of which are disclosed in Note 11.

The IMA has been amended to account for the effect of a dividend on fees paid to the Investment Manager. This amendment constitutes a small transaction for the purposes of Chapter 11 of the Listing Rules and is therefore exempt from the requirements thereof.

The Investment Manager may seek to effect rebalancing transactions from time to time pursuant to policies that are intended to result in the Company and the affiliated entities managed by the Investment Manager generally holding investment positions on a proportionate basis relating to their respective adjusted net asset values, which are equal to each of the entities' net asset values plus any accrued (but not crystallized) performance fees and the net proceeds of any outstanding long-term debt, including the current portion thereof (which in the case of the Company, includes the net proceeds from the bond offering as further discussed below in Note 18). Rebalancing transactions involve either the Company purchasing securities or other financial instruments held by one or more affiliated entities or selling securities or other financial instruments to one or more affiliated entities. These transactions are subject to a number of considerations including, but not limited to, cash balances and liquidity needs, tax, regulatory, risk and other considerations, which may preclude these transactions from occurring or limit their scope at the time of the transactions.

For the period from July 24, 2017 to December 31, 2018, the Company held an investment in PS VI Intl and for the period from August 28, 2018 to December 31, 2018, the Company held investments in each of PS VI Intl and PS VI LP, as discussed in Note 3. As of December 31, 2018, the Company's capital balance in PS VI Intl and PS VI LP is $377,929,842 and $43,719,111, respectively. This represents an ownership in PS VI Intl and PS VI LP of 45.25% and 11.54%, respectively. As of December 31, 2017, the Company's capital balance in PS VI Intl was $256,820,746 and represented an ownership in PS VI Intl of 36.43%. The Company's investment in PS VI is included in investments in securities in the statement of financial position.

The Investment Manager effected rebalancing transactions on August 28, 2018 and December 31, 2018 among the Company, PSLP and Pershing Square International, Ltd. ("PSINTL"). In each transaction, interests in PS VI LP and PS VI Intl held by PSLP and PSINTL, respectively, were acquired by the Company. In connection with each rebalancing transaction, PSH made adjustments to direct interests it owned in ADP so that after the rebalancing transactions PSH's delta-adjusted exposure to ADP reached the intended percentage of its net assets. As a result of the rebalancing transactions, as of December 31, 2018, the Company had payables to PSLP and PSINTL of $24,783,576 and $18,145,672, respectively.

The Investment Manager had determined that the investments in PS VI were fair valued in accordance with IFRS and the Company's accounting policy. No fair value adjustments were made for trading restrictions. The Company is not charged a management fee or performance fee in relation to its investments in PS VI.

All realized and unrealized gains and losses from the investments in PS VI were reflected in the statement of comprehensive income for the years ended 2018 and 2017, respectively. See Note 7 for the discussion on the fair value measurement.

For the year ended December 31, 2018, the Company's independent Directors' fees in relation to their services for the Company were $335,923 of which none were payable as of December 31, 2018. For the year ended December 31, 2017, the Company's independent Directors' fees in relation to their services for the Company were $298,630 of which none were payable as of December 31, 2017.

In the normal course of business, the Company and its affiliates make concentrated investments in portfolio companies where the aggregate beneficial holdings of the Company and its affiliates may be in excess of 10% of one or more portfolio companies' classes of outstanding securities. At such ownership levels, a variety of securities laws may, under certain circumstances, restrict or otherwise limit the timing, manner and volume of disposition of such securities. In addition, with respect to such securities, the Company and its affiliates may have disclosures or other public reporting obligations with respect to acquisitions and/or dispositions of such securities.

At December 31, 2018, the Company and its affiliates had beneficial ownership in excess of 10% of the outstanding common equity securities of Platform Specialty Products Corporation. At December 31, 2017, the Company and its affiliates had beneficial ownership in excess of 10% of the outstanding common equity securities of Chipotle Mexican Grill, Inc., Platform Specialty Products Corporation, Restaurant Brands International Inc. and The Howard Hughes Corporation.

William A. Ackman is the chairman of the board of The Howard Hughes Corporation and Ryan Israel, a member of PSCM's investment team, was a board member of Platform Specialty Products Corporation until his resignation on February 4, 2019.

As a result of purchases of Public Shares in 2018 amounting to more than $520 million and including previously acquired shares, William Ackman, Nicholas Botta and other affiliates of PSCM now own 20.1% of the Company on a fully diluted basis as of December 31, 2018.

17. EARNINGS PER SHARE

Basic and diluted earnings per share ("EPS") is calculated by dividing the profit/(loss) for the year attributable to the Public Shares and the Special Voting Share over the weighted average number of Public Shares and the Special Voting Share outstanding, respectively. In accordance with IFRS, the weighted average shares outstanding calculated for the Public Shares and the Special Voting Share were 214,849,143 and 1, respectively for the year ended December 31, 2018, and 238,676,380 and 1, respectively for the year ended December 31, 2017.

As discussed in Note 11, all Class B Shares were exchanged for 1 Special Voting Share on May 2, 2017. Therefore, the profit/(loss) of the Class B Shares for the period from January 1, 2017 to May 1, 2017, plus the profit/(loss) of the Special Voting Share from May 2, 2017 to December 31, 2017, was divided over 1 Special Voting Share as presented on the statement of comprehensive income to show one EPS as a whole for the year ended December 31, 2017.

As presented in "Supplemental U.S. GAAP Disclosures-Financial Highlights", the share buyback program and Company Tender provided accretion to the Public Shares of $0.35 per share.

18. BONDS

On June 26, 2015, the Company issued at par $1 billion in Senior Notes at 5.5% due 2022. The Bonds will mature at par on July 15, 2022 and pay a fixed rate interest coupon of 5.5% per annum, which is paid semi-annually. The Bonds are listed on the Irish Stock Exchange. The proceeds from the offering were in U.S. Dollars and were used to make investments or hold assets in accordance with the Company's Investment Policy.

The Company has the option to redeem all or some of the Bonds prior to June 15, 2022, at a redemption price equal to the greater of (1) 100% of the principal amount of the Bonds to be redeemed or (2) the sum of the present values of the remaining scheduled principal and interest payments (exclusive of accrued and unpaid interest to the date of redemption) on the Bonds to be redeemed, discounted to the redemption date on a semi-annual basis using the applicable U.S. treasury rate plus 50 basis points, plus accrued and unpaid interest. If the Company redeems all or some of the Bonds on or after June 15, 2022, the redemption price will equal 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest.

The fair value of the Bonds as of December 31, 2018 and December 31, 2017, based upon market value at that time, was $991,340,000 and $1,042,500,000, respectively. In accordance with IFRS 9, the Bonds' carrying value as of December 31, 2018 and December 31, 2017, in the amount of $1,017,411,979 and $1,015,427,736, respectively, on the statement of financial position is representative of amortized cost and the transaction costs of the Bonds issued in the amount of $14,502,332 that were capitalized and are to be amortized over the life of the Bonds using the effective interest method.

		2018
At December 31, 2017	**$**	**1,015,427,736**
Finance costs for the year		56,984,243
Bond coupon payment during the year		(55,000,000)
At December 31, 2018	**$**	**1,017,411,979**
Finance costs for the year:		
Bond interest expense	$	54,929,255
Amortization of Bond issue costs incurred as finance costs		2,054,988
Interest expense	**$**	**56,984,243**

		2017
At December 31, 2016	**$**	**1,013,552,905**
Finance costs for the year		56,874,831
Bond coupon payment during the year		(55,000,000)
At December 31, 2017	**$**	**1,015,427,736**
Finance costs for the year:		
Bond interest expense	$	54,823,788
Amortization of Bond issue costs incurred as finance costs		2,051,043
Interest expense	**$**	**56,874,831**

19. EVENTS AFTER THE REPORTING PERIOD

In January 2013, the Investment Manager invested $1 million in IEX Group, Inc. ("IEX"), a private alternative trading system company. IEX's business objective is to create an execution alternative to reduce the trading costs of large investors (including the Company). The Core Funds were prohibited from investing in IEX due to restrictions on investments in private companies. Because PSCM believed that the success of the IEX platform would benefit the Pershing Square funds and that the funds would likely trade on the IEX platform, in order to eliminate any potential for conflicts of interest, PSCM chose to invest in IEX effectively on behalf of the Core Funds including PSH.

At the time of the Investment Manager's $1 million investment in IEX, it committed to bear 100% of any losses from its investment in IEX. In the event the investment in IEX was profitable, the Investment Manager committed to share 100% of the net profits with the Core Funds including PSH by reducing the aggregate management fees that the Core Funds pay by an amount equal to any profit realized in respect of the disposition, as adjusted in its sole discretion, for any fees, costs, taxes, or expenses incurred by the Investment Manager from the investment.

The Investment Manager sold its investment in IEX in March 2019 and realized $3.7 million in net profits after adjusting for taxes and other expenses. As previously agreed by the Investment Manager, the profits will be used to reduce the management fees payable by the Core Funds. The reduction will be allocated pro-rata among the Core Funds based on each Core Fund's respective net asset value as of March 1, 2019. As a result of this pro-rata allocation, the management fees payable by the Company will be reduced by $2.5 million.

The Investment Manager has evaluated the need for disclosures and/or adjustments resulting from subsequent events during the period between the end of the reporting period and the date of authorization of the Financial Statements. This evaluation together with the Directors' review thereof did not result in any additional subsequent events that necessitated disclosures and/or adjustments.

Supplemental U.S. GAAP Disclosures

(Stated in United States Dollars)

CONDENSED SCHEDULE OF INVESTMENTS

Shares	Description/Name	Fair Value	Percentage of Net Assets Attributable to all Shareholders[1]
	Investments in Securities		
	Equity Securities		
	Common Stock		
	Canada:		
	Restaurant:		
14,129,498	Restaurant Brands International Inc.	$ 738,972,745	19.28%
140,873	Restaurant Brands International Limited Partnership	7,503,938	0.20
	Total Canada (cost $503,031,348)	746,476,683	19.48
	United States:		
	Chemicals:		
27,228,888	Platform Specialty Products Corporation	281,274,413	7.34
	Financial Services	84,555,564	2.21
	Hospitality:		
8,526,771	Hilton Worldwide Holdings Inc.	612,222,158	15.97
	Industrials:		
3,907,331	United Technologies Corporation	416,052,605	10.85
	Restaurant:		
1,383,958	Chipotle Mexican Grill, Inc.	597,579,225	15.59
9,648,467	Starbucks Corporation	621,361,275	16.21
	Retail:		
6,938,623	Lowe's Companies Inc.	640,851,220	16.72
	Total United States (cost $3,399,255,641)	3,253,896,460	84.89
	Total Common Stock (cost $3,902,286,989)	4,000,373,143	104.37
	Preferred Stock		
	United States:		
	Financial Services (cost $56,350,992)	53,017,975	1.38
	Total Equity Securities (cost $3,958,637,981)	4,053,391,118	105.75

(1) Net assets attributable to all shareholders are comprised of the equity balances of the Public Shares and the Special Voting Share as well as the net assets attributable to Management Shares. As of December 31, 2018, the net assets attributable to all shareholders was $3,832,957,828.

CONDENSED SCHEDULE OF INVESTMENTS (CONTINUED)

Shares	Description/Name	Fair Value	Percentage of Net Assets Attributable to all Shareholders(1)
	Investment in Affiliated Entities		
	United States:		
	Business Services:		
	Pershing Square VI, L.P. & Pershing Square VI International, L.P.:		
1,391,428	Automatic Data Processing, Inc., Common Stock	$ 182,444,039	4.76 %
3,537,972	Automatic Data Processing, Inc., Equity Call Options Purchased, $55.50 - $108.00, 01/15/2021	238,995,861	6.23
	Other assets and liabilities	209,053	0.01
	Total Investment in Affiliated Entities (cost $378,222,863)	421,648,953	11.00
	Total Investments in Securities (cost $4,336,860,844)	**$ 4,475,040,071**	**116.75 %**
	Derivative Contracts		
	Equity Options Purchased		
	United States:		
	Business Services:		
862,096	Automatic Data Processing, Inc., Call Options, $63.00 - $76.06, 06/23/2020–01/15/2021 (cost $38,288,396)	$ 57,510,420	1.50 %
	Foreign Currency Forward Contracts		
	Currencies	4,403,525	0.12
	Total Return Swap Contracts, long exposure		
	United States:		
	Financial Services	(49,740,661)	(1.30)
	Real Estate Development and Operating	(94,960,677)	(2.48)
	Total Return Swap Contracts, long exposure	(144,701,338)	(3.78)
	Total Derivative Contracts (cost $38,288,396)	**$ (82,787,393)**	**2.16 %**

(1) Net assets attributable to all shareholders are comprised of the equity balances of the Public Shares and the Special Voting Share as well as the net assets attributable to Management Shares. As of December 31, 2018, the net assets attributable to all shareholders was $3,832,957,828.

FINANCIAL HIGHLIGHTS

For the year ended 2018	Public Shares
Per share operating performance	
Beginning net asset value at January 1, 2018	$ 17.41
Change in net assets resulting from operations:	
Net investment loss	(0.20)
Net loss from investments and derivatives	(0.26)
Accretion from share buyback and company tender	0.35
Net change in net assets resulting from operations	(0.11)
Ending net asset value at December 31, 2018	$ 17.30
Total return prior to performance fees	(0.65)%
Performance fees	0.00
Total return after performance fees	(0.65)%
Ratios to average net assets	
Expenses before performance fees	3.01 %
Performance fees	0.00
Expenses after performance fees	3.01 %
Net investment income/(loss)	(1.11)%

Certain Regulatory Disclosures

1. None of the Company's assets are subject to special arrangements arising from an illiquid nature.

2. There have been no material changes to the Company's risk profile and risk management system as disclosed in the Prospectus of the Company dated October 2, 2014.

3. a) There have been no changes to the maximum amount of leverage which the Investment Manager may employ on behalf of the Company since the Company's inception. The terms of the Company's Bonds restrict the Company from incurring indebtedness beyond a total debt-to-capital ratio of 33.3%.

Articles 7 and 8 of the Level 2 Regulations of the Alternative Investment Fund Managers Directive (the "Directive") set forth the methodology of calculating the leverage of the Company in accordance with the gross method and the commitment method. Leverage is expressed as the exposure of the Company. Exposures are calculated using the sum of the absolute values of all positions valued in accordance with Article 19 of the Directive and all delegated acts adopted pursuant to Article 19. For derivatives, exposures are calculated using the conversion methodology set forth in Annex II to the Level 2 Regulations. For all other securities, exposures are calculated using market values. The gross method excludes cash and cash equivalents as per Article 7. The commitment method includes cash and cash equivalents and employs netting and hedging arrangements as per Article 8. The total amount of leverage employed by the Company as per these calculations as of December 31, 2018 is shown below.

Gross method:	$5,296,352,986
Commitment method:	$5,212,684,262

The Company generally does not expect to use a significant amount of margin financing. In the past, securities purchased by the Company pursuant to prime brokerage services agreements typically, but not always, have been fully paid for. Although it is anticipated that securities purchased in the future typically will be fully paid for, this may not be the case in all circumstances.

In addition, the Company, from time to time, enters into total return swaps, options, forward contracts and other derivatives some of which have inherent recourse leverage. The Company generally does not use such derivatives to obtain leverage, but rather to manage regulatory, tax, legal or other issues. However, depending on the investment strategies employed by the Company and specific market opportunities, the Company may use such derivatives for leverage.

b) There have been no material changes to the right of the re-use of collateral or any guarantee granted under any leveraging arrangement.

From time to time, the Company may permit third-party banks, broker-dealers, financial institutions and/or derivatives counterparties ("Third Parties"), to whom assets have been pledged (in order to secure such Third Party's credit exposure to the Company), to use, reuse, lend, borrow, hypothecate or re-hypothecate such assets. Typically with respect to derivatives, the Company pledges to Third Parties cash, U.S. Treasury securities and/or other liquid securities ("Collateral") as initial margin and as variation margin. Collateral may be transferred either to the Third Party or to an unaffiliated custodian for the benefit of the Third Party. In the case where Collateral is transferred to the Third Party, the Third Party pursuant to these derivatives arrangements will be permitted to use, reuse, lend, borrow, hypothecate or re-hypothecate such Collateral. The Third Parties will have no obligation to retain an equivalent amount of similar property in their possession and control, until such time as the Company's obligations to the Third Party are satisfied. The Company has no right to this Collateral but has the right to receive fungible, equivalent Collateral upon the Company's satisfaction of the Company's obligation under the derivatives. Collateral held as securities by an unaffiliated custodian may not be used, reused, lent, borrowed, hypothecated or re-hypothecated.

From time to time, the Company may offer guarantees to Third Parties with respect to derivatives, prime brokerage and other arrangements. These guarantees are not provided by the Company as a guarantee of the payment and performance by other core funds managed by the Investment Manager to such Third Parties. Rather, the guarantees are typically to guarantee the payment and performance by entities that are direct or indirect subsidiaries of the Company. Such entities are typically set up to manage regulatory, tax, legal or other issues. To the extent that a subsidiary is not 100% owned by the Company, the Company will typically only guarantee such subsidiary for the benefit of Third Parties to the extent of the Company's ownership interest in the subsidiary.

4. With respect to the liquidity management procedures of the Company the Company is a closed-ended investment fund, the Public Shares of which are admitted to trading on Euronext Amsterdam and the LSE. As such, Public Shares have no redemption rights and shareholders' only source of liquidity is their ability to trade Public Shares on Euronext Amsterdam and the LSE.

5. Remuneration:

For the Year Ended 2018	Fixed Remuneration	Variable Remuneration	Total	Number of Beneficiaries
Total remuneration paid to the entire staff of PSCM	$ 57,026,801	$ 3,235,000	$60,261,801	66
Total remuneration of those staff of PSCM who are fully or partly involved in the activities of the Company	$ 47,041,846	$ 2,240,000	$49,281,846	26
The proportion of the total remuneration of the staff of PSCM attributable to the Company(1)	82.49%	69.24%	81.78%	26 out of 66
Aggregate remuneration paid to senior management and members of staff of PSCM whose actions have a material impact on the risk profile of the Company	$ 42,819,336	$ 1,575,000	$44,394,336	13

(1) The percentages in this row reflect the portion of the total remuneration paid to the entire staff of PSCM (i.e., the corresponding amount listed in the first row) that was paid to PSCM staff members any part of whose duties involve the Company. The total remuneration paid to each PSCM staff member involved in the activities of the Company is included, irrespective of the proportion of such staff member's duties that involve the Company.

6. The Bonds are subject to the following transfer restrictions:

(a) Each holder of the Bonds is required to be either (a) a qualified institutional buyer ("QIB") as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") who is also a qualified purchaser ("QP") as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 or (b) a non-U.S. person, provided that, in each case, such holder can make the representations set forth in the Listing Particulars, dated June 24, 2015,

(b) The Bonds can only be transferred to a person that is a QIB/QP in a transaction that is exempt from the registration requirements of the Securities Act pursuant to Rule 144A or to a non-U.S. person in an offshore transaction that is not subject to the registration requirements of the Securities Act pursuant to Regulation S, or to the Company, and

(c) The Company has the right to force any holder who is not a QIB/QP or a non-U.S. person to sell its Bonds.

Affirmation of the Commodity Pool Operator

To the best of the knowledge and belief of the undersigned, the information contained in the audited Financial Statements of Pershing Square Holdings, Ltd. for the year ended December 31, 2018 is accurate and complete.

/s/ Michael Gonnella
Michael Gonnella

By: Michael Gonnella
Chief Financial Officer

Pershing Square Capital Management, L.P.
Commodity Pool Operator

Pershing Square Holdings, Ltd.
Commodity Pool

Endnotes and Disclaimers

ENDNOTES TO CHAIRMAN'S STATEMENT

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

[ii] Please see Endnote 3 in "Endnotes to Company Perfomance and Investment Manager's Report".

[iii] Holdings of affiliates of the Investment Manager have not been aggregated for regulatory reporting purposes.

[iv] As of February 12, 2019.

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

As defined in the Indenture, "Indebtedness" reflects indebtedness (i) in respect of borrowed money, (ii) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof), (iii) representing capital lease obligations, (iv) representing the balance deferred and unpaid of the purchase price of any property or services (excluding accrued expenses and trade payables in the ordinary course of business) due more than one year after such property is acquired or such services are completed or (v) in respect of the Company's capital stock that is repayable or redeemable, pursuant to a sinking fund obligation or otherwise, or preferred stock of any of the Company's future subsidiaries. Indebtedness does not include, among other things, NAV attributable to any management shares or hedging obligations or other derivative transactions and any obligation to return collateral posted by counterparties in respect thereto.

ENDNOTES TO COMPANY PERFORMANCE AND INVESTMENT MANAGER'S REPORT

1. Performance results are presented on a net-of-fees basis. Net returns include the reinvestment of all dividends, interest, and capital gains and reflect the deduction of, among other things, management fees, brokerage commissions, administrative expenses and historical or accrued performance allocation/fees (if any). Performance results assume an investor has been invested in PSLP since inception and participated in any "new issues", as such term is defined under Rules 5130 and 5131 of FINRA. Where the Company's performance is presented with that of PSLP, results also assume that an investor invested in PSLP at its inception on January 1, 2004 and converted to PSH at its inception on December 31, 2012. Depending on the timing of an individual investor's specific investment in the Company and/or PSLP, net performance for an individual investor may vary from the net performance as stated herein. The cumulative return for an investor who invested in PSH at its inception through March 19, 2019 is 33.0%

2. PSLP's net performance results are presented as it is the Pershing Square fund with the longest track record and substantially the same investment strategy to the Company. The inception date for PSLP is January 1, 2004. In 2004, Pershing Square earned a $1.5 million (approximately 3.9%) annual management fee and PSLP's general partner earned a performance allocation equal to 20% above a 6% hurdle from PSLP, in accordance with the terms of the limited partnership agreement of PSLP then in effect. That limited partnership agreement was later amended to provide for a 1.5% annual management fee and 20% performance allocation effective January 1, 2005. The net returns for PSLP presented herein reflect the different fee arrangements in 2004, and subsequently,

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

3. The S&P 500 Total Return Index ("index") has been selected for purposes of comparing the performance of an investment in the Company or PSLP as applicable (together the "Pershing Square funds") with a well-known, broad-based equity benchmark. The statistical data regarding the index has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The index is not subject to any of the fees or expenses to which the Pershing Square funds are subject. The Pershing Square funds are not restricted to investing in those securities which comprise this index, their performance may or may not correlate to this index and they should not be considered a proxy for this index. The volatility of an index may materially differ from the volatility of the Pershing Square funds' portfolios. The S&P 500 is comprised of a representative sample of 500 U.S. large cap companies. The index is an unmanaged, float-weighted index with each stock's weight in the index in proportion to its float, as determined by Standard & Poor's. The S&P 500 index is proprietary to and is calculated, distributed and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates and/or its licensors and has been licensed for use. S&P® and S&P 500®, among other famous marks, are registered trademarks of Standard & Poor's Financial Services LLC. © 2018 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.

4. The inception date for the Company is December 31, 2012 and the inception date for PSLP is January 1, 2004. The performance data presented on page 2 under "Cumulative (Since Inception)" is calculated from January 1, 2004.

5. Performance information is presented as net returns. Please refer to endnote i of the Chairman's Statement and endnote 3 in "Endnotes to Company Performance and Investment Manager's Report".

6. Please refer to endnote iii of the Chairman's Statement.

7. Please refer to endnote 2 in "Endnotes to Company Performance and Investment Manager's Report".

8. Effective free float refers to the number of Public Shares not owned by affiliates of Pershing Square.

9. While this increase is not necessarily representative of PSH's portfolio as a whole, it is included to illustrate an investment decision we faced in July 2018. There is no guarantee that this position will remain in the portfolio in the future.

10. This report reflects the contributors and detractors to the performance of the portfolio of the Company. Positions with contributions or detractions to performance of 50 basis points or more are listed separately, while positions with contributions or detractions to performance of less than 50 basis points are aggregated. From May 2, 2017 to January 2, 2018, the Company engaged in a share buyback program whereby its buyback agent repurchased Public Shares subject to certain limitations. In May 2018, the Company purchased and cancelled 22,271,714 Public Shares pursuant to the Company Tender. The accretion from the share buyback program and the Company Tender is reflected herein.

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

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

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

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

    It should not be assumed that any of the securities transactions or holdings discussed herein were or will prove to be profitable, or that the investment recommendations or decisions Pershing Square makes in the future will be profitable or will equal the investment performance of the securities discussed herein. Companies shown in this figure are meant to demonstrate Pershing Square's active investment style and the types of industries in which the Pershing Square funds invest and were not selected based on past performance.

Limitations of Performance Data

Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. This report does not constitute a recommendation, an offer to sell or a solicitation of an offer to purchase any security or investment product. This report contains information and analyses relating to all publicly disclosed positions above 50 basis points in the Company's portfolio during 2018. Pershing Square may currently or in the future buy, sell, cover or otherwise change the form of its investment in the companies discussed in this report for any reason. Pershing Square hereby disclaims any duty to provide any updates or changes to the information contained here including, without limitation, the manner or type of any Pershing Square investment.

Forward-Looking Statements

This report also contains forward-looking statements, which reflect Pershing Square's views. These forward-looking statements can be identified by reference to words such as "believe", "expect", potential", "continue", "may", "will", "should", "seek", "approximately", "predict", "intend", "plan", "estimate", "anticipate" or other comparable words. These forward-looking statements are subject to various risks, uncertainties and assumptions. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. Should any assumptions underlying the forward-looking statements contained herein prove to be incorrect, the actual outcome or results may differ materially from outcomes or results projected in these statements. None of the Company, Pershing Square or any of their respective affiliates undertakes any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law or regulation.