PERSHING SQUARE HOLDINGS, LTD.

2017 Annual Report

Contents

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The Company

Pershing Square Holdings, Ltd. (the "Company" or "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 the Company commenced trading on Euronext Amsterdam N.V. ("Euronext Amsterdam") on October 13, 2014 with a trading symbol of PSH. 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 London Stock Exchange (the "LSE").

The Company has appointed Pershing Square Capital Management, L.P. ("PSCM," the "Investment Manager" or "Pershing Square"), a Delaware limited partnership, as its investment manager pursuant to an agreement between the Company and the Investment Manager. The Investment Manager has responsibility, subject to the overall supervision of the Board of Directors, for the investment of the Company's assets and liabilities in accordance with the investment policy of the Company set forth in this Annual Report.

The Company's investment objective is to preserve capital and to seek maximum, long-term capital appreciation commensurate with reasonable risk. The Company seeks to achieve its investment objective through long and occasionally short positions in equity or debt securities of public U.S. and non-U.S. issuers (including securities convertible into equity or debt securities), derivative instruments and any other financial instruments that the Investment Manager believes will achieve the Company's investment objective.

Chairman's Statement

INTRODUCTION

Historically, PSH has traded exclusively on Euronext Amsterdam. In May 2017, PSH ordinary shares began to also trade on the Main Market of the London Stock Exchange ("LSE"). The LSE listing was an important accomplishment for PSH and was the culmination of an effort to improve market access for investors, increase liquidity in PSH shares and assist in narrowing the discount to Net Asset Value ("NAV") at which PSH shares trade. Soon after the LSE listing, the FTSE Russell added PSH to the FTSE All-Share and the FTSE 250 indices, another important step for PSH.

The Company faced two major challenges in 2017: (i) weak investment performance; and (ii) the shares continued to trade at a significant discount to NAV. This was the third year of portfolio losses, albeit modest, but not satisfactory given the increase in the stock market over the same period. The persistent discount to NAV at which the shares trade indicates that some investors have lost confidence in the ability of the Investment Manager to generate superior investment returns for shareholders. On the other hand, we also have investors who believe that now is an interesting time to invest in PSH, to obtain exposure to an Investment Manager who has an enviable long-term track record at a discount to the NAV of the underlying portfolio, with low management fees and a high watermark. The Board of PSH has a duty to govern the Company in a manner that ensures the success of the Company, while also acting in the best interests of all shareholders. To that end, the Board has worked with the Investment Manager to address the persistent discount to NAV at which PSH shares trade, to monitor investment performance, and to evaluate the steps the Investment Manager is taking to address recent sub-par performance.

INVESTMENT PERFORMANCE

During the year ended December 31, 2017, PSH's NAV declined by 4.0%[i], ending the year at $17.41 per share. Performance since Valeant began its decline in August 2015 is in stark contrast to PSCM's long-term track record of a 13.6%[ii] compound annual net return from its inception on January 1, 2004, through the end of 2017. The Board and the Investment Manager find recent performance to be particularly unsatisfactory in light of last year's strong stock market returns, and are working to improve performance.

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 Board was pleased to see the robust generation of new investment ideas by the Investment Manager in 2017. During the year, PSCM established five new investments which all made a positive contribution to 2017 investment performance. However, due to substantially increasing share prices in a rising market during the accumulation period, PSCM was unable to build sufficiently large positions for three of these investments, and thus they did not contribute materially to the overall 2017 performance.

The Board notes that the Investment Manager has taken a number of important steps to minimize potential losses, and position the portfolio for future profits. These include the settlement of the Allergan litigation and the conversion of the Herbalife short position to put options and its subsequent exit.

The Board recognizes that PSCM's negative investment performance over the past three years has been in sharp contrast to its historical track record. PSCM has acknowledged that such underperformance is unsatisfactory and is working diligently to address the factors leading to the underperformance. The Board believes that the Investment Manager has taken meaningful steps to position PSH to recover from these difficult years, and to improve returns for our shareholders.

DISCOUNT MANAGEMENT

PSH shares continued to trade at a significant discount to NAV during 2017. The Board took several steps to address the discount during the year. On May 2, 2017, PSH's Public Shares commenced trading on the Premium Segment of the Main Market of the LSE. In July of 2017, PSH was included in the FTSE All-Share and FTSE 250 indices. We believe that approximately 6% of shares outstanding were acquired by index funds at that time. Contemporaneously with the listing, the Company launched a share buyback program for up to approximately 5% of PSH's outstanding shares. From the inception of the buyback program on May 2, 2017 to date, PSH invested $77.2 million to purchase 5,474,173 public shares at an average discount of 20.1% and has remaining capacity under the current buyback program to purchase an additional 6,525,827 of public shares. In November 2017, PSH announced that it amended the terms of the share buyback program to permit share purchases on Euronext Amsterdam, alongside the LSE. This has enabled PSH to greatly increase the pace of the buyback.

PSH NAV vs. Trading Price (January 1, 2017 – December 31, 2017)

PROPOSED COMPANY TENDER OFFER

On February 28, 2018, PSCM Acquisition Co LLC ("PSCMAC"), an entity owned by affiliates of PSCM, withdrew its proposed tender offer for PSH publicly traded shares, which had originally been announced on January 2, 2018, due to the Dutch Authority for Financial Markets' (Autoriteit Financiële Markten, "AFM") interpretation of certain applicable rules regarding the proposed tender offer, which, in PSCMAC's view, made the proposed tender offer not feasible.

As a result of PSCMAC's withdrawal of its tender offer, the Board of Directors of PSH intends that PSH should conduct a tender offer to purchase up to an aggregate amount of $300 million of its publicly traded shares (the "Company Tender"). PSH anticipates that the Company Tender would be structured as a Dutch-auction style tender which is priced at a discount to PSH's prevailing net asset value per public share, with the specific terms being detailed in the Company Tender document to be issued in due course.

The Company Tender will be subject to applicable shareholder approvals (discussed further below), including approval to remove the current 4.99% shareholder ownership limit, which will be sought at PSH's upcoming Annual

General Meeting ("AGM") on April 24, 2018. It is expected that the Company Tender would be launched shortly following the AGM. The Company Tender would be financed from PSH's cash on hand.

We believe that a tender offer made directly by the Company is now appropriate in order to address the continuing imbalance between supply and demand for the public shares. In addition, we believe that the tender offer is a good use of available cash given that the tender offer is expected to result in NAV accretion and in light of the current trading prices of PSH's underlying investments.

VOTE ON REMOVAL OF OWNERSHIP LIMIT

Historically, PSH has had an ownership limit of 4.99% because of tax issues relating to the United States Real Property Holding Company ("USRPHC") rules under the Foreign Investment in Real Property Tax Act ("FIRPTA") provisions of the U.S. Internal Revenue Code. Under current FIRPTA tax regulations, PSH may not own more than 5% of the equity of a USRPHC without incurring adverse tax consequences upon the disposal of the USRPHC. Should a PSH shareholder own more than 5% of PSH and also own equity in the same USRPHC, that shareholder's direct and indirect ownership of the USRPHC would be attributed to PSH, potentially causing PSH to own constructively more than 5% of the USRPHC, leading to adverse tax consequences for all investors in PSH.

The Board has proposed to give PSH shareholders the opportunity to vote on the removal of the ownership limit at the upcoming AGM. If shareholders vote to remove the ownership limit, PSH will no longer be able to invest in the common and preferred shares of USRPHCs (including REITs and real estate C corps) without potentially incurring the adverse tax consequences. However, removing the ownership limit will give the Board the flexibility to undertake the Company Tender and Company share repurchases in the market if it is attractive to do so without the concern that a shareholder who owns less than 5% of PSH shares prior to such repurchase might own more than 5% afterwards. The Investment Manager will use its best efforts to mitigate the effect of the restriction on investments in USRPHCs by obtaining economic exposure to USRPHCs in which it sees value by investing in total return swaps and similar instruments, which do not have voting rights.

William Ackman, CEO of PSCM, and other affiliates of PSCM have indicated they intend to vote in favor of the removal of the ownership limitation.

LEVERAGE

The PSH Bonds ($1 billion aggregate principal amount of Senior Notes with a 5.5% per annum interest rate), traded up from approximately par at the beginning of 2017 to approximately 105 by the end of the year. The Bonds are rated BBB+ with a stable outlook by Fitch and rated BBB with a negative outlook by S&P.

The terms of the Bonds do not allow PSH to incur debt beyond a total debt-to-capital ratio of 1.0 to 3.0 and will restrict Company buybacks that would cause the ratio to be exceeded. As of December 31, 2017, the Company's total debt to capital ratio was 19.1%[iii]. The leverage of the Bonds amplified losses during 2017, but should also accelerate the increase in NAV as the portfolio recovers. The Board and PSCM continue to believe that a prudent amount of long-term leverage should enhance the returns to PSH shareholders.

CORPORATE GOVERNANCE/BOARD

The Board continues to work effectively. While I always appreciate the work of the PSH Directors, I would particularly like to thank the Directors for their continued wisdom and support over the past year, which, given the LSE listing and other events, imposed significant additional demands on their time. In addition, in 2017, the Board appointed a Management Engagement Committee and a Nomination Committee, both of which include only Directors independent of the Investment Manager (the functions of these committees are discussed further in the Corporate Governance Report). Having separate committees is considered best practice. Prior to the establishment of these committees, the Board satisfied the functions of a Management Engagement Committee and Nomination Committee by having only those Directors not affiliated with the Investment Manager participate in the discussion of and vote upon any matter that would typically come before either committee.

On February 12, 2018, Jonathan Kestenbaum retired as a non-executive Director of the Company due to the increased demands of his executive commitments. I would like to thank him for his contribution to the Company since his appointment in 2014. We have benefited greatly from his wise counsel during that time, and he retires from the Board with our best wishes for the future.

Subsequent to Jonathan Kestenbaum's retirement, the Nomination Committee promptly commenced a search process for prospective candidates. After consideration of the results of initial interviews and the notable background details of a number of highly qualified candidates, the Nomination Committee recommended that the Board submit two candidates for shareholder approval as non-executive Directors of the Company at the upcoming AGM. Details of the nominees' backgrounds are contained in the AGM circular also issued at the time of this financial report.

EVENTS: SHAREHOLDER PORTFOLIO UPDATE AND ANNUAL GENERAL MEETING

The Investment Manager presented a portfolio update to shareholders in London on January 29, 2018 which discussed in greater detail the events of 2017, identified the steps the Investment Manager is taking to improve performance, and provided an update on the portfolio. Slides from that presentation are available on PSH's website: www.pershingsquareholdings.com.

PSH's AGM will be held in Guernsey on April 24, 2018. Details of the event will be posted on www.pershingsquareholdings.com. I will report to you on the first half of 2018 in August 2018, 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 23, 2018

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[i] Calculated with respect to Public Shares only.

[ii] Past performance is not a guarantee of future results. 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). Compound annual returns are those of Pershing Square, L.P. ("PSLP"), the Pershing Square fund with the longest track record and substantially the same investment strategy to the Company. Please see footnote 5 in "Footnotes to 2017 Key Highlights and Investment Manager's Report" on page 18 for further information.

[iii] 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.

Please see additional important disclaimers and notes on page 18.

2017 Key Highlights

PERFORMANCE

Pershing Square Holdings, Ltd. Performance vs. the S&P 500			
	PSH Gross Return [1]	**PSH Net Return [1]**	**S&P 500[3]**
2017	(2.6)%	(4.0)%	21.8%

PERFORMANCE ATTRIBUTION[4]

Below are the attributions to gross performance of the portfolio of the Company for 2017.

Winners	
Restaurant Brands International Inc.	5.2%
Automatic Data Processing, Inc.	3.5%
The Howard Hughes Corporation	1.6%
Nomad Foods Limited	1.3%
Hilton Worldwide Holdings Inc.	0.9%
Nike, Inc.	0.8%
Accretion	0.4%
All Other Positions	0.9%
Total Winners	14.6%

Losers	
Herbalife Ltd.	(4.0)%
Mondelez International, Inc.	(3.5)%
Chipotle Mexican Grill, Inc.	(2.7)%
Federal National Mortgage Association	(2.1)%
Federal Home Loan Mortgage Corporation	(1.2)%
Valeant Pharmaceuticals International, Inc.	(1.0)%
All Other Positions	(2.7)%
Total Losers	(17.2)%
Total Winners and Losers 2017	**(2.6)%**

Positions with performance attributions of 50 basis points or more are listed above separately, while positions with performance attributions of less than 50 basis points are aggregated. On May 2, 2017, the Company began its share buyback program whereby its buyback agent began to repurchase Public Shares subject to certain limitations. The accretion from the share buyback program is reflected above.

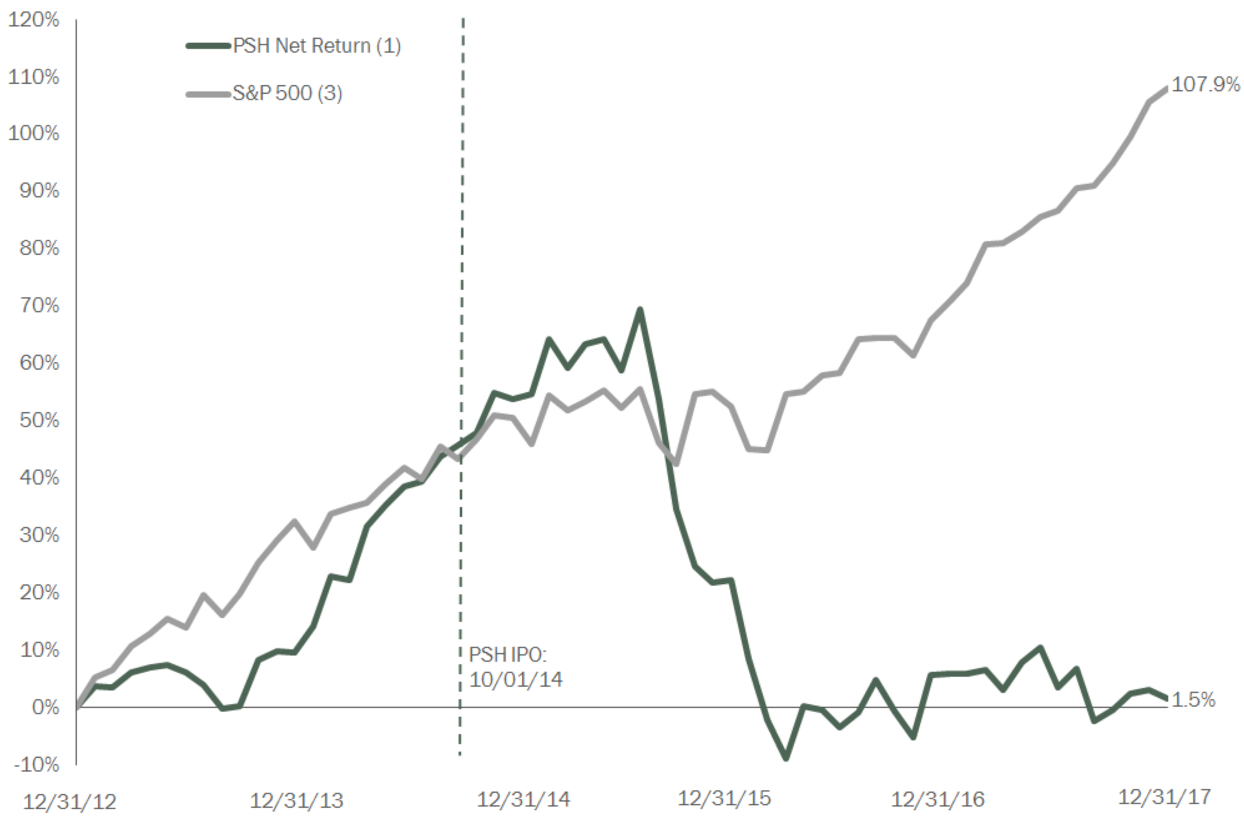
Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying footnotes on page 18.

Investment Manager's Report

HISTORICAL PERFORMANCE

Pershing Square Holdings, Ltd. Performance vs. the S&P 500		
	PSH Net Return [1]	**S&P 500**[3]
2013	9.6%	32.4%
2014	40.4%	13.7%
2015	(20.5)%	1.4%
2016	(13.5)%	11.9%
2017	(4.0)%	21.8%
2013 – 2017 [2]		
Cumulative (Since Inception)	1.5%	107.9%
Compound Annual Return	0.3%	15.8%

Pershing Square Holdings, Ltd. Performance vs. the S&P 500



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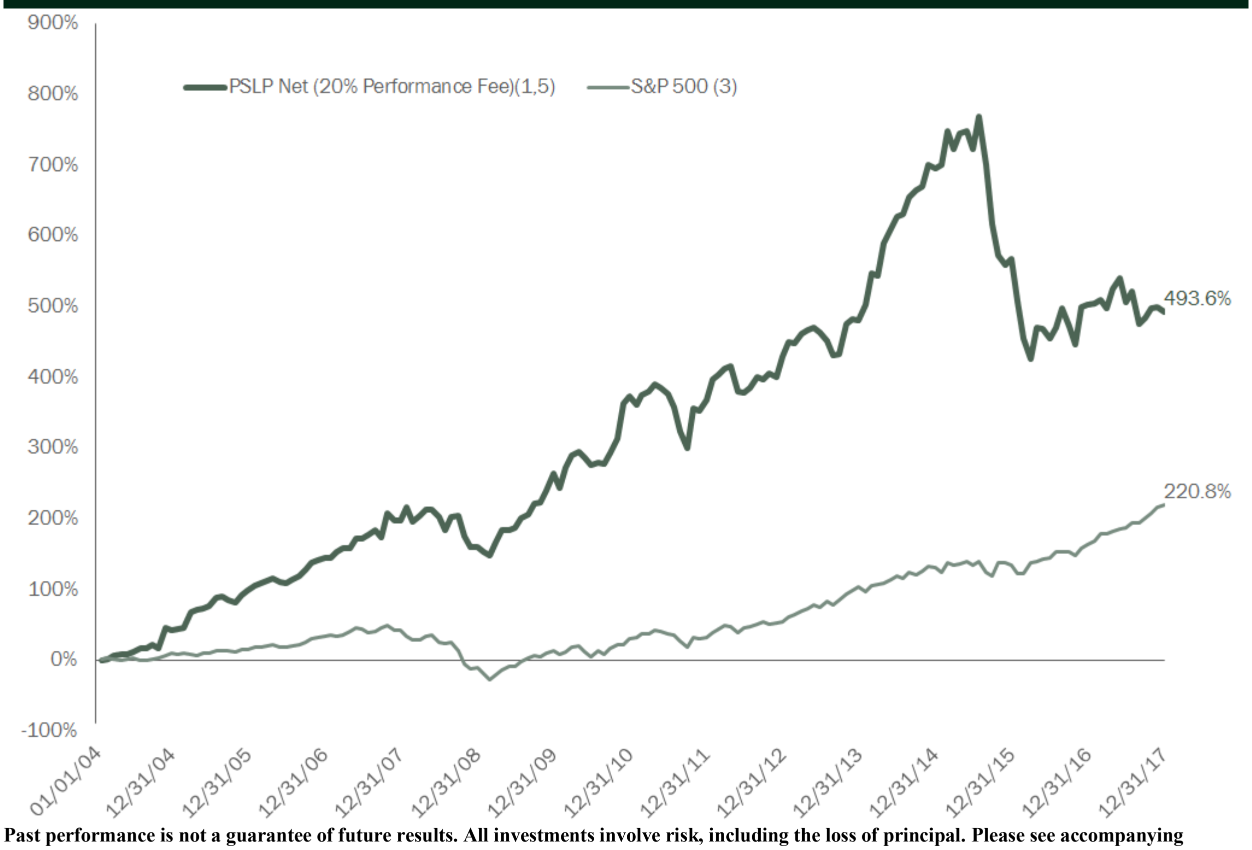
The table and chart below reflect the net performance of Pershing Square, L.P. ("PSLP"), the Pershing Square fund with the longest track record, since inception. We present the PSLP track record using its historical performance fee of 20%.

Pershing Square, L.P. Performance vs. the S&P 500		
	PSLP Net Return (1,5)	**S&P 500**(3)
2004	42.6%	10.9%
2005	39.9%	4.9%
2006	22.5%	15.8%
2007	22.0%	5.5%
2008	(13.0)%	(37.0)%
2009	40.6%	26.5%
2010	29.7%	15.1%
2011	(1.1)%	2.1%
2012	13.3%	16.0%
2013	9.7%	32.4%
2014	36.9%	13.7%
2015	(16.2)%	1.4%
2016	(9.6)%	11.9%
2017	(1.6)%	21.8%
2004 – 2017 (2)		
Cumulative (Since Inception)	493.6%	220.8%
Compound Annual Return	13.6%	8.7%

Pershing Square, L.P. Performance vs. the S&P 500



Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying footnotes on page 18.

PUBLIC ACTIVIST INVESTMENTS SINCE INCEPTION[6]

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.

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LETTER TO SHAREHOLDERS

Dear Pershing Square Investor,

For the first nearly 12 years of the Pershing Square strategy from January 1, 2004 through July 31, 2015 investors earned a 20.5%[1, 5] compounded annual return (a nine-fold return on a day-one investment) compared to 7.8% for the S&P 500 over the same period. As a result of three calendar years of underperformance, our compounded annual return since inception has been reduced to 13.6% representing a six-fold return on a day-one investment in the strategy. While the overall record is satisfactory for early investors, it has been very disappointing for PSH investors who invested in recent years. Our recent underperformance has been further impacted by the widening of the discount to NAV at which PSH shares trade. The obvious question is: What are we going to do about it?

We have taken a number of important steps in 2017 and early 2018 that position the portfolio and our investment operation for profits in the future. These steps included: (1) minimizing potential risk exposures by (a) receiving preliminary approval from the Court for the settlement of the Allergan litigation (which we anticipate to be finalized later this year), and (b) by capping our exposure to Herbalife by converting our short position into put options and then subsequently exiting the position; (2) restructuring the management company into a smaller investment-centric organization with future asset growth driven by investment results; and (3) reinforcing the implementation of our core investment principles which have guided the substantial majority of our performance since inception.

2017 should have been a stronger year for Pershing Square. I attribute our underperformance last year to three principal factors. First, legacy issues impacted performance including the cost of the Allergan settlement, losses on the exit from Valeant and from our short position in Herbalife. Second, while we generated a substantial number of profitable investment ideas - including ADP, Hilton, Nike, and S&P Global - other than for ADP, increases in the prices of these investments due to the rapid rise of the market, both during the research process and the accumulation period, prevented us from building large enough positions to materially impact performance. Third, although positive contributors to returns in 2017 generated +14.6%, four positions accounted for negative contribution of -13.5% (-4.0% HLF, -3.5% MDLZ, -3.3% FNMA and FMCC and -2.7% CMG). Excluding HLF, which we have exited, we remain optimistic about the risk/return profile of these positions to a greater extent than before because of their reduced prices.

With respect to the NAV discount, and as discussed in the Chairman's Statement, PSH proposes to conduct a Company Tender for $300 million subject to applicable shareholder approvals which will be sought at the April 24, 2018 AGM. I and the other members of the PSCM management team believe that PSH and our current portfolio are substantially undervalued. Subject to applicable laws and restrictions (including art. 7 para. 7 of the Dutch Decree on Public Takeover Bids), I, along with others on the management team, remain at liberty to purchase, directly or indirectly, PSH publicly traded shares, including through open market purchases (regelmatig beursverkeer), although we do not intend to do so until the company tender is completed.

We believe that this is a particularly attractive time to invest in PSH because:

- our portfolio trades at a wide spread to intrinsic value with catalysts which we believe should contribute to value recognition (which we discuss in detail in the Portfolio Update);
- the shares are currently trading at approximately 23% discount to NAV, which we would expect will narrow with improved investment performance;
- the idea generation engine is intact and productive;
- we have largely resolved the potential liabilities that have caused concern, namely the risk of a short squeeze at Herbalife and the Allergan litigation; and
- fees are low as we have reduced management fees by $14.4 million over the next eight quarters in connection with the Allergan settlement, and performance fees will not be payable until PSH recovers above the high water mark NAV of $26.37 per share.

While none of the above factors guarantee a good investment outcome, they substantially increase the probability of our success. PSH's negative performance was accentuated by PSH's leverage (it has $1 billion of bonds outstanding), and its stock price performance was further impacted by the widening of the NAV discount. If we are successful in delivering substantial positive investment performance, shareholders should receive the benefit of a reversal of these two factors, further enhanced by the substantially reduced fees charged by the investment manager.

As the largest investor in the Pershing Square funds, I and the other members of the Pershing Square team have experienced our recent underperformance first hand, but it is much worse to generate losses for shareholders who are relying on our efforts for their needs. You can be assured that we are working very hard to deliver the results that you expect from us.

Thank you for your patience and support.

Sincerely,

William A. Ackman

PORTFOLIO UPDATE

Automatic Data Processing, Inc. (ADP)

ADP, a classic Pershing Square investment, was PSH's largest new investment in 2017 and a meaningful contributor to returns for the year. ADP is a simple, predictable, free-cash-flow generative business that has underperformed its potential. We took an active approach to our investment in the company and ran a proxy contest to highlight the significant opportunity for improvement at the company. Though we ultimately did not obtain board representation as a result of the proxy contest, we believe that the proxy contest was an effective tool to highlight the value-creation opportunity that exists at ADP.

During our numerous public presentations throughout the proxy campaign (which are still available at www.ADPascending.com), we emphasized the opportunity for ADP to 1) better its Enterprise market offering 2) accelerate growth and 3) improve margins.

In our November letter to investors, we noted that as a result of our proxy campaign and increased awareness and acceptance regarding the opportunity for improvement, ADP's management has committed to:

(1) Enterprise Product Launch: ADP stated that it has an "upcoming" release of an Enterprise human capital management product which will enable ADP to stem and potentially reverse Enterprise market share losses;

(2) Accelerated Revenue Growth: after Employer Services' organic revenue growth decelerates to ~2% to 4% this fiscal year, growth will reaccelerate to approximately 7% to 9% in the fiscal year beginning July 1, 2018, and will continue into fiscal year 2020 in order to achieve the company's guidance of 6% to 7% organic growth over the next three fiscal years; and

(3) Margin Improvement: ADP will increase operational profit margins by 500 basis points over the next three fiscal years despite a projected decline in operational profit in the first fiscal year.

ADP will have to meet the commitments it made to its shareholders during the proxy contest, which when added to the benefits of tax reform and rising interest rates will drive a significant increase in earnings. ADP's potential for further improvements beyond the modest commitments to date remains significant. We continue to believe that Employer Services' (ADP's core business which generates ~2/3 of profit) growth can increase from ~2% to 4% to ~7%+ while operating margins should increase from ~19% today to 35% or greater once the business is optimized. These improvements would imply ~$10 of EPS by FY 2022, more than double the current earnings and a greater than 50% increase relative to the status quo potential.

Since our proxy campaign concluded in November, we have engaged in a dialogue with the company. The company's recently reported fiscal Q2 2018 results make clear that ADP continues to have a significant opportunity for improvement. While rising interest rates and tax reform are driving strong overall results and management's increase in fiscal year EPS growth guidance to 12%-13%, we were disappointed that the company's organic operational growth in Employer Services remains weak, bookings growth of 6% remains modest in light of an easy comparison with last year, and management projects a 50 basis point decline in overall margins for the year. While we and other shareholders were not expecting material improvement in the first quarter since the proxy contest, investor expectations will grow substantially over the course of 2018.

Pro-forma for tax reform, ADP trades at ~23 times its fiscal year June 2019 EPS guidance, a reasonable price for a business of this quality and growth characteristics. The current valuation is below the valuation at which we initiated the position when considering the positive benefits of tax reform, rising interest rates (which increase the company's earnings from float), and modest organic growth which have outpaced the stock price increase. We believe that ADP stock is substantially undervalued if the company's operations are optimized.

CEO Carlos Rodriguez recently stated that there is "no disagreement about the potential that ADP has, it's really about pace," and noted that the proxy campaign has "strengthened our resolve to accelerate the execution of a strategy that I think was on the right path to begin with," and that there is "nothing wrong with a little bit of acceleration." We and other shareholders expect ADP to comprehensively outline its plans to improve long-term growth and margins in the coming months.

Restaurant Brands International Inc. (QSR)

QSR was PSH's largest contributor to returns in 2017. We continue to believe that QSR is a high-quality business that reflects our core investment principles and remains undervalued. In our 2016 annual report, we wrote: "We believe [QSR's] highly scalable and replicable operating strategy can be applied to potential future acquisition opportunities."

In March 2017, QSR added Popeyes Louisiana Kitchen to existing brands Burger King and Tim Hortons, and showed significant progress in improving Popeyes' cost structure. We continue to believe that over time, the company should be able to successfully execute additional value-creating acquisitions.

QSR continued to show strong underlying business growth throughout the year. QSR exhibited net unit growth of 7% at Burger King and 3% at Tim Hortons. The company increased EBITDA margins by 300 basis points at Burger King and more than 1,500 basis points at Popeyes. Same-store-sales growth at Burger King increased by 3% which more than offset flat results at Tim Hortons.

Despite its significant share price appreciation in 2017, we believe that QSR remains an attractive investment opportunity as it is undervalued relative to intrinsic value and its peers. Despite QSR's higher long-term growth potential compared to its peers, QSR currently trades at ~21 times our estimate of 2018 free cash flow per share while peers trade at an average of ~24 times free cash flow per share based on analyst estimates.

Mondelez International (MDLZ)

MDLZ trades at less than 18 times consensus estimates of 2018 earnings per share, a significant discount to both peer valuations and its historical average multiple despite its high business quality, secular growth potential, and substantial margin improvement opportunity. We believe this undervaluation is driven by concerns that emerged in 2017 concerning the U.S. grocery landscape, MDLZ's growth potential, and the recent CEO transition.

While we believe there are enormous pressures facing U.S. center-of-plate packaged food companies, MDLZ is not such a company. Unlike other large cap packaged food companies based in the U.S., MDLZ generates 75% of its sales overseas, including 40% in emerging markets, and 85% of its global sales from snacks. This advantaged geographic and category footprint should allow MDLZ to generate superior long-term revenue growth. In the near-to-medium term, revenue growth should be boosted by favorable foreign currency exchange rates, product portfolio rationalization, and the macroeconomic environment in emerging markets, which have all turned from headwinds to tailwinds. The company started to show good progress in accelerating revenue growth in 2017, with underlying organic revenue up 2% in the second half after only 0.3% growth in the first half, and reported revenue growing 5% in the second half after a 2% decline in the first half.

In November, Dirk Van de Put, previously President and CEO of McCain Foods, succeeded Irene Rosenfeld as CEO of MDLZ. He held his first earnings call as CEO in late January 2018, during which he issued 2018 guidance that was slightly below analyst expectations for organic revenue growth and margin expansion, but 5% above expectations for EPS growth. This guidance was widely viewed as conservative, with the company admitting on the call that there "should be some upside" to guidance. Despite conservative guidance, we believe investor fears around a larger potential earnings "rebase" when Mr. Van de Put outlines his multi-year strategic plan at the end of the summer are unfounded given: (1) the substantial capital invested over the last several years to upgrade the manufacturing base and reduce product and procurement complexity; (2) a strong current portfolio of products, given the significant SKU rationalization over the last three years; (3) the healthy 9% of sales that the company currently invests in advertising and promotion, which is at the high end of its peer group given its scale; and (4) the fact that the 2018 margin goal of 17% is still materially below optimized levels.

We expect continued acceleration in revenue growth, double-digit EPS growth, and clarity on Mr. Van de Put's strategy will cause MDLZ's valuation to rise to levels approaching intrinsic value.

The Howard Hughes Corporation (HHC)

HHC is currently PSCM's longest standing investment in the portfolio.

Until 2017, HHC operated largely below the radar of the investment community. In 2017, HHC conducted its first Investor Day on May 17 at the South Street Seaport in New York City. PSCM also presented HHC at the Sohn Conference on May 8, 2017, in a presentation entitled SimCities. We believe that over time, increased transparency and continued progress on HHC's key developments will enable the market to understand and assign appropriate values to the significant underlying assets of HHC and ultimately, to the HHC franchise.

In 2017, HHC continued to make excellent progress across its portfolio. The Seaport District, one of HHC's most valuable assets, is on track for its opening in the summer of 2018. ESPN recently signed a long-term lease for 19,000 sq.ft. to broadcast its daily shows from the Seaport which will bring greater visibility to this unique location.

The company also made progress with Ward Village in Hawaii where 93% of the company's existing condo inventory has been sold or is under contract. Summerlin, HHC's Las Vegas master planned community, had its fifth straight year with over $100 million in land sales. The company also achieved increased land sales at both its Bridgeland and Woodlands MPCs in Houston. HHC has 50 million sq.ft of remaining vertical development entitlements at its existing MPCs alone, which is greater than 10 times the amount of development that HHC has executed since 2011.

HHC has superb management led by David Weinreb and Grant Herlitz, HHC's CEO and President, who recently entered into 10-year employment agreements. As part of these agreements, David and Grant completed their respective purchases of $50 million and $2 million of warrants from the company, which they are restricted from selling or hedging for the next five years. This represents one of the largest investment commitments that we have seen from a management team, highlighting their strong shareholder alignment and long-term commitment.

In January 2018, Pershing Square Holdings sold its common stock in HHC (but increased its HHC total return swaps position) allowing PSH to maintain a more than 10% exposure to HHC. These transactions give greater flexibility to PSH to take certain future steps to address the discount to NAV.

Chipotle Mexican Grill, Inc. (CMG)

While 2017 was a difficult year for CMG's business and stock price performance, we believe it was a year of transition. With recent changes, we believe Chipotle represents a highly compelling turnaround opportunity.

On November 29, CMG announced a search for a new CEO and the transition of founder Steve Ells to Executive Chairman. On February 13, 2018, Chipotle announced that Brian Niccol would become the company's new CEO and would be added to the board, effective March 5, 2018. Pershing Square partner and Chipotle board director Ali Namvar was a member of the three-person CEO search committee that helped identify and recruit Niccol.

Brian was most recently the CEO of Yum! Brands' Taco Bell Division, where he was responsible for the highly successful turnaround of the business. Under his leadership, Taco Bell successfully repositioned the brand as a lifestyle brand and launched numerous product initiatives, including the new breakfast daypart, the fastest growing daypart in the industry. He transformed Taco Bell into a social media leader and revolutionized its digital approach through mobile ordering and payment across their 7,000 restaurants.

Prior to Taco Bell, Niccol held leadership roles at Pizza Hut, including Vice President of Strategy, Chief Marketing Officer, and General Manager. Niccol began his career at Procter & Gamble where he spent 10 years in various brand management positions.

Niccol is a proven executive with experience and expertise in digital technologies, restaurant operations and branding. We are thrilled that he has joined CMG as CEO at this pivotal time and believe that he is the right leader to reinvigorate the company and help it achieve its enormous potential.

Fannie Mae (FNMA) / Freddie Mac (FMCC)

FNMA and FMCC were negative contributors to returns in 2017. Following the November 2016 presidential election, the prices of both stocks increased significantly as investors believed the likelihood of housing finance reform had increased as a result of the election. Those gains were largely retraced in 2017 due to: (i) an adverse court ruling in February 2017 in one of the GSE shareholder lawsuits against the federal government (which does not affect the government takings case that we and others have brought); (ii) concerns that a rumored potential housing finance reform bill will contain provisions that are unfavorable for shareholders; and (iii) concerns that the Trump administration and Congress are now occupied with other agenda items delaying a potential resolution. Despite these factors, we believe that since our initial investment in 2013, FNMA's and FMCC's intrinsic business value and the probability of a favorable investment outcome have increased materially.

For any proposal for housing finance reform to succeed, in our view, it will need to satisfy a number of conditions including:

(1) Simplicity: The solution must be simple in order to ensure broad support and minimize systemic risk;
(2) Visibility: In order to raise the enormous amount of required new private capital, investors must have visibility into the long-term earnings power of FNMA and FMCC; and
(3) Fair treatment: Current investors in FNMA and FMCC must be treated fairly in order for new capital to be raised, as new investors will be highly sceptical as to how they will be treated if the ultimate outcome is poor for legacy shareholders.

While the timing of GSE and housing finance reform remains uncertain, a number of positive developments in 2017 in the political and regulatory landscape, which we have previously described, cause us to be optimistic about the possibility of a favorable resolution. Although the momentum for reform is much stronger now than it was when we made our initial investment, several key points of debate remain as roadblocks to reform:

(1) Feasibility and desirability of creating new competitors;
(2) Appropriate capital levels, rates of return and degree of regulation; and
(3) Treatment of various classes of securities in Fannie and Freddie.

In recent months, we purchased preferred stock of both companies. Our preferred stock represents approximately 21% of our total investment in Fannie and Freddie, or about 1% of net assets. While the substantial majority of our investment historically has been in Fannie/Freddie common stock, we acquired preferred stock recently because (1) we believe that the timing of a favorable outcome for the two companies is more proximate (timing is an important consideration for the preferred shares as they are noncumulative and perpetual), (2) it hedges our risk of a restructuring that disproportionately benefits the preferred versus the common shares, and (3) we found the trading prices of the preferred securities attractive at current levels. We still prefer our investment in the common shares because the government and taxpayers' interests, as owners of 79.9% of the common stock of both companies, are aligned with the interests of common shareholders. If housing reform is successful, we believe that both FNMA and FMCC common and preferred stock will likely be worth multiples of their current share prices.

Platform Specialty Products Corporation (PAH)

2017 was an important year of progress and recovery for PAH. During 2017, the company generated 7% organic EBITDA growth driven by 4% organic revenue growth and cost savings. The company also refinanced ~$4 billion of debt, significantly lowering interest expense. In August 2017, PAH announced that it intends to separate its Ag and Performance Solutions businesses into two publicly traded companies by the second half of this year in order to increase long-term value.

While PAH made substantial business progress in 2017, this progress was not reflected in the company's stock price as the stock ended the year essentially unchanged. If PAH shares were to trade at a valuation comparable to that of its competitors and achieve analyst earnings estimates, they would be worth more than $19, nearly 75% more than current levels.

Nike, Inc. (NKE)

NKE was one of five new investments for PSCM in 2017. NKE is a classic Pershing Square-style investment as it is a high quality business that we expect can compound long-term earnings at a high rate due to strong revenue growth and margin expansion.

We seek to invest in businesses with dominant market share and significant barriers to entry. As one of the world's most iconic brands and the market leader in the athletic footwear and apparel industry, NKE fits squarely in that category. NKE has unmatched marketing spend and brand loyalty, patented innovations and manufacturing skill (primarily footwear) and substantial leverage with suppliers and retailer customers.

Athletic footwear accounts for ~67% of the company's revenue and has an attractive industry structure with favorable competitive dynamics. We believe its historical high-single-digit annual revenue growth rate is likely to continue as a result of:

(1) Positive secular trends in health & wellness and casualization;
(2) Substantial growth in emerging markets, which comprise ~30% of revenue;
(3) Strong pricing power due to product innovation and marketing; and
(4) A significant margin opportunity due to new manufacturing processes and rapid growth in distribution channels with more favorable economics.

During the course of our four-month ownership of Nike (we sold the position recently), the stock price appreciated by 34%, reducing the returns to be earned from our investment to a level at which we believed our capital could be allocated to more attractive opportunities. It is rare that we are a short-term investor. That said, we are always willing to redeploy capital if an investment appreciates to a level that no longer offers sufficient returns relative to other potential opportunities.

Herbalife Ltd. (HLF) Short

As discussed in detail in our Q3 2017 investor letter, we restructured our HLF position into put options in order to limit our downside exposure. This structure created a more attractive risk-reward ratio while minimizing the risks associated with short selling, which became more pronounced throughout the year following Herbalife's share buyback program. Despite continued deteriorating fundamentals, HLF negatively impacted PSH's 2017 performance as its stock price increased during the year driven by a large share buyback program and self-tender in August 2017 which substantially reduced Herbalife's share count and free float.

While we have been correct in our belief that Herbalife's business fundamentals would deteriorate as earnings per share, revenue growth, and other measures of business performance weakened substantially since we initiated the investment, we underestimated Herbalife's ability to access debt capital and use financial engineering which – coupled with Mr. Icahn's share purchases to materially reduce the company's free float – has driven share price appreciation. The reduction in free float is best evidenced by the cover page of Herbalife's recently filed 10-K which reports 87.4 million shares outstanding of which only 22.7 million are held by non-affiliates of the issuer as of June 30, 2017 (it is unclear why the company does not report this calculation as of a more recent date). In light of the large number of shares that are held by index funds which are non-affiliates of the issuer, and the company's recent announcement of another tender offer, it is not surprising that the shares have continued to increase substantially in price without regard to fundamental value as there is almost no supply of shares for sale from non-affiliates of the company.

While we believe that deteriorating business fundamentals and a high valuation are a good recipe for an attractive short sale, technical factors are a critically important additional consideration. While we continue to believe our analysis of Herbalife's business remains correct, the shares have become a highly risky short sale in light of the extremely limited free float, and as a result, we have exited this investment.

Exited Positions

S&P Global Inc. (S&P)

Like Nike, S&P was a new investment in 2017 in which we were unable to establish a meaningful position at an attractive price. We found S&P attractive because of the annuity-like characteristics of its business combined with pricing power, strong secular growth and a margin opportunity. The company has two main businesses: 1) credit ratings ~55% of EBIT; and 2) financial data services ~45% of EBIT.

The credit ratings business is a great business because credit ratings are a "must-have" for new debt issuance. Furthermore, the industry is highly consolidated, with S&P and Moody's comprising the substantial majority of the market, and is characterized by high barriers to entry. S&P's financial data services business is also attractive because of its stable recurring revenue stream due to its valuable proprietary data sets. Overall, strong revenue growth at S&P has been supported by pricing power and growth of financial markets along with the potential for margin improvement.

We sold our shares in S&P as the large stock price increase during our accumulation period prevented us from establishing a meaningful position in the company.

Other Exited Positions:

PSH also exited its investments in Air Products, Hilton, Nomad Foods, an additional undisclosed position, and Valeant, during the year. Other than for Valeant, all of the exited positions generated gains for PSH.

FOOTNOTES TO 2017 KEY HIGHLIGHTS AND INVESTMENT MANAGER'S REPORT

1 Performance results are presented on a gross and net-of-fees basis. Gross and net returns include the reinvestment of all dividends, interest, and capital gains and reflect the deduction of, among other things, brokerage commissions and administrative expenses. Net returns also reflect the deduction of management fees and historical or accrued performance allocation/fees (if any). All performance results provided herein assume an investor has been invested in the Company or PSLP, as applicable, since inception and participated in any "new issues", as such term is defined under Rules 5130 and 5131 of FINRA.

2 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 pages 7 to 8 for the S&P 500 under "Cumulative (Since Inception)" is calculated from December 31, 2012 or January 1, 2004, as applicable.

3 The S&P 500 ("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 a Pershing Square fund is 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 it 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' portfolio. The S&P 500 is comprised of a representative sample of 500 U.S. large cap companies. The index is an unmanaged, float-weighted index with each stock's weight in the index in proportion to its float, as determined by Standard & Poor's. The S&P 500 index is proprietary to and is calculated, distributed and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates and/or its licensors and has been licensed for use. S&P® and S&P 500®, among other famous marks, are registered trademarks of Standard & Poor's Financial Services LLC. © 2016 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.

4 This report reflects the attributions to performance of the portfolio of the Company. Positions with performance attributions of 50 basis points or more are listed separately, while positions with performance attributions of less than 50 basis points are aggregated. On May 2, 2017, the Company began its share buyback program whereby its buyback agent began to repurchase Public Shares subject to certain limitations. The accretion from the share buyback program is reflected herein.

The attributions 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 performance attributions to the gross returns provided 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 7.

5 PSLP's 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 set out herein reflect the different fee arrangements in 2004, and subsequently, except that 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 the returns. In addition, pursuant to a separate agreement, in 2004 the sole unaffiliated limited partner 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, net returns would have been lower.

6 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 equity" 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 2017. 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.

Directors

Anne Farlow
(Chairman)

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. 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. Since 2005, she has been an active investor in and non-executive director of various unlisted companies. 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

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 Juridica Investments Limited, 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. Mr Battey is a chartered accountant having qualified with Baker Sutton & Co. in 1977.

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.

William Scott

Mr Scott, a Guernsey resident, has been an independent Director of the Company since 2012. Mr Scott 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 Specialist Fund 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, AHL Strategies PCC Limited and MAN AHL Diversified PCC Limited) which are listed on The International Stock Exchange. From 2003 to 2004, Mr Scott worked as senior vice president with FRM Investment Management Limited, which is now part of Man Group plc. Previously, Mr Scott was a director at Rea Brothers (which became part of the Close Brothers group in 1999) from 1989 to 2002 and 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. Mr Scott also holds the Securities Institute Diploma and is a chartered fellow of the Chartered Institute for Securities & Investment. He is also a chartered wealth manager.

Jonathan Kestenbaum
(retired as of February 12, 2018)

Jonathan Kestenbaum, a U.K. resident, has been an independent Director of the Company since 2014. Jonathan Kestenbaum is currently the Chief Operating Officer of RIT Capital Partners plc and a member of its executive committee. He is also a director of the company's operating business, J Rothschild Capital Management. Jonathan Kestenbaum is a director of The Capital Holdings Funds plc and a director of Windmill Hill Asset Management. He is a former chief executive of the National Endowment for Science, Technology and the Arts (NESTA) and previously chief of staff to Sir Ronald Cohen, the chairman of Apax Partners. Jonathan Kestenbaum graduated from the London School of Economics before pursuing post graduate work at Cambridge University. He earned a MBA with distinction from the Cass Business School, and is also a graduate of the Strategic Agility Programme at Harvard Business School. He completed the cabinet office top management program and is an adjunct professor at the Imperial College Business School. Jonathan Kestenbaum was created a life peer in November 2010 and became Lord Kestenbaum of Foxcote in the county of Somerset. He was introduced in the House of Lords on January 26, 2011 and speaks in the Lords on Economic Affairs and Innovation. In December 2013, Jonathan Kestenbaum was appointed as chancellor of Plymouth University.

Corporate Governance Report

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").

The Company is a member of the Association of Investment Companies and complies with the AIC Code of Corporate Governance (the "AIC Code"), to the extent practicable. The Guernsey Code provides that companies which report in accordance with the AIC Code are deemed to meet the requirements of the Guernsey Code.

By reason of the premium listing of the Public Shares on the LSE, the Company is required to report on how it has applied the UK Corporate Governance Code. The AIC Code, as explained by the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide"), addresses all the principles set out in the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies such as the Company.

The AIC Code and the AIC Guide are available on the AIC's website, www.theaic.co.uk. The UK Corporate Governance Code is available on the UK Financial Reporting Council's website, www.frc.org.uk.

The manner in which the Board has complied with the various principles of the AIC Code and the relevant provisions of the UK Corporate Governance Code is explained in this report, the Report of the Directors and Report of the Audit Committee. The Directors believe that the corporate governance framework that has been established by the Board is appropriate for the Company.

The Board considers that the Company has materially complied with the principles and recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, with the exception of the following aspects and those set out in the Report of the Audit Committee:

- The Company has not established a separate remuneration committee as the Board considers that, due to its composition and the structure of the Company, establishing a remuneration committee is unnecessary. The Board is satisfied that any relevant matters are properly considered by the Board as a whole. Mr. Botta does not take part in discussions regarding or vote on matters concerning the remuneration of the Investment Manager.
- The Board does not have a formal policy on tenure as the Directors are required to submit themselves to annual re-election by shareholders in accordance with the Articles of the Company.
- The Board has not formally appointed a senior independent director. The Board deems this to be unnecessary as three of the four Directors are independent, including the Chairman of the Board, Ms Farlow.
- The Board does not have a formal policy on diversity. The Board is committed to appointing the best possible applicant for any open positions, taking into account the current composition and needs of the Board. The Board considers the diverse backgrounds of the current Directors to contribute to the Board's effectiveness, in light of their balance of relevant skills, experience, independence, knowledge and opinions.
- The Chairman believes the Directors are appropriately qualified and experienced, and has encouraged each Director to assess their training needs on an ongoing basis. The Directors undertake relevant training as appropriate (including continuing professional development as part of their professional qualifications) and, where they deem necessary to the furtherance of their duties, have access to independent professional advice at the Company's expense.

The UK Corporate Governance 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.

THE BOARD COMPOSITION AND DELEGATION OF FUNCTIONS AND ACTIVITIES

The Board consists of four non-executive Directors, three 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 of the Company and had served as an independent non-executive Director of the Company since 2014.

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 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.

BOARD TENURE AND SUCCESSION PLANNING

Any Director appointed in accordance with the Articles of Incorporation will hold office only until the next following annual general meeting, and will then be eligible 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

As mentioned above, on February 12, 2018, Jonathan Kestenbaum retired from the Board. The Nomination Committee promptly commenced a search process for prospective 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 balance of skills, knowledge and experience on the Board 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, two candidates 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 non-executive Directors of the Company at the upcoming AGM.

The election of Jonathan Kestenbaum's successors and any future changes to the Board's composition are expected to be managed without undue disruption to the operation of the Board.

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, principal 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 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.

The Directors received full information about the Company upon their appointment to the Board. The Directors, where necessary in the furtherance of their duties, have access to independent professional advice at the Company's expense.

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 formal meetings attended by each Director in the year ended December 31, 2017:

	Scheduled Quarterly Board Meetings (attended / conducted)	*Ad-hoc Board Meetings (attended / conducted)*	*Audit Committee Meetings (attended / conducted)*
Anne Farlow	4 / 4	3 / 3	5 / 5
Richard Battey	4 / 4	3 / 3	5 / 5
Nicholas Botta[1]	4 / 4	1 / 3	N/A
Jonathan Kestenbaum	4 / 4	3 / 3	5 / 5
William Scott	4 / 4	3 / 3	4 / 5

[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.

The above ad-hoc Board meetings were convened at short notice and required a minimum quorum of two Directors.

COMMITTEES OF THE BOARD

The Board has established an Audit Committee, a Management Engagement Committee, and a Nomination Committee. All Committee members are 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.

Management Engagement Committee

The Board has established a Management Engagement Committee to adhere to the principles of the UK Corporate Governance Code in connection with the listing of the Public Shares on the LSE. 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. Until his retirement as a Director on February 12, 2018, Jonathan Kestenbaum was the Chairman of the Management Engagement Committee. William Scott has been appointed to succeed Jonathan Kestenbaum as the Chairman of the Management Engagement Committee.

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.

Prior to the establishment of this committee it was the practice of the Board to satisfy the functions of a Management Engagement Committee by having all independent Directors engage in any activities that would typically come before a Management Engagement Committee.

Nomination Committee

The Board has established a Nomination Committee to adhere to the principles of the UK Corporate Governance Code in connection with the listing of the Public Shares on the LSE. 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.

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

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

During 2017, the Board engaged Deloitte LLP as an external adviser to facilitate the evaluation of its own performance and that of each individual Director. The external adviser assessed the effectiveness of the Board, including the Board's composition, engagement, governance structure, agenda and planning, dynamics, and the Chairman's leadership by a review of the relevant documentation and by conducting individual interviews with each Director, certain Investment Manager representatives and the Company Secretary. The report did not identify any material deficiencies in the Board's performance and identified Director engagement and the Chairman's leadership as key strengths. The Board has considered the findings and recommendations of the external adviser and has concluded that it has operated effectively in 2017.

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.

GENDER DIVERSITY

The Board currently comprises one female and three male directors. The Board will consider the gender diversity of the Board, along with all other relevant factors when considering future Board appointments. Further details regarding the Board's commitment to diversity are provided on page 21.

RELATIONS WITH SHAREHOLDERS

The Board recognizes that it is important to maintain appropriate contact with shareholders to understand their issues and concerns. 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. In addition, the Chairman has held meetings with several major shareholders. To further enhance communication with shareholders, the Company has appointed Jefferies International Limited and Fidante Capital plc to act as corporate brokers. Investor feedback from the Investment Manager and other advisers is reported to the Board on a regular basis.

Each year, shareholders will have the opportunity to vote and to attend the AGM where the Directors will be present. 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.

/s/ Anne Farlow
Anne Farlow
Chairman of the Board
March 23, 2018

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 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, 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, 2017 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 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 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. 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 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 "Risk Management" in the Report of the Directors.

The Audit Committee continues to monitor the review by the Board of the Company's compliance with newly applicable regulations and corporate governance standards following the admission to trading of the Company's Public Shares on the Main Market of the LSE.

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 reviewing its effectiveness for 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, 2017, 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 forthcoming 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 November 6, 2017. The Audit Committee recommended to the Board that it accept the auditor's proposed fee of approximately $166,000 (2016 Actual: $203,700) for the audit of the Annual Report and Financial Statements. During the year the Company paid the auditor approximately $52,000 (2016: $46,000) for the interim review and approximately $282,000 (2016: $201,000) for other permissible non-audit services, including services provided in connection with the Company's application for admission of the Public Shares to trading on the LSE.

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 received 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 has given particular regard to non-audit fees and whether the auditor is the most appropriate party to provide any non-audit services. In particular, when considering the provision of services related to the LSE listing, Ernst & Young LLP was determined to have the requisite experience and capacity to satisfy the short timeframe and technical demands of the LSE listing process. Notwithstanding such services the Audit Committee considers Ernst & Young LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit.

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 fulfilment 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 scepticism 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, 2018.

Shareholders should note that the primary reporting framework for the Company's audit is International Standards on Auditing (UK); the auditor's report thereunder is set out on pages 35 to 38. The Annual Report also includes on page 39 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 23, 2018

Report of the Directors

We present below the Annual Report and Financial Statements of the Company for the year ended December 31, 2017.

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. Treasuries 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. In 2017, the Company invested in a co-investment vehicle which purchased a mix of securities and equity options (refer to page 52).

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 the Company's 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, 2017 of $197 million (2016: loss of $700 million). The net assets attributable to all shareholders at December 31, 2017 were $4.24 billion (2016: $4.52 billion). For the Company's returns, please see the 2017 Key Highlights and Financial Highlights sections on pages 6 and 75, respectively.

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

The Company released half-yearly Financial Statements on August 17, 2017 relating to the first half of the year of 2017. The Company intends to release the half-yearly Financial Statements of 2018 in the third quarter.

LONDON STOCK EXCHANGE LISTING AND DISCOUNT CONTROL

On a regular basis, the Board monitors the trading activity of the Public Shares and the discount or premium of the share price to NAV. During 2016 and 2017, the Board paid particular attention to the discount at which the share price has traded in relation to NAV.

In an effort to increase liquidity and narrow this discount, on March 23, 2017, the Company announced its intention to apply for admission of its Public Shares to the Official List of the UK Listing Authority and for trading on the Main Market of the LSE.

On April 19, 2017, the Company announced a share buyback program for up to 5% of the Company's outstanding Public Shares. Jefferies International Limited, the buyback agent, commenced the program on May 2, 2017 with purchases on the LSE. On November 8, 2017, the buyback program was extended to Euronext Amsterdam in order to accelerate its pace. As of December 31, 2017, a total of 5,411,736 shares (representing 45.1% of the total buyback program) had been repurchased. The Company believes that the repurchase is an attractive investment at current discount levels which should contribute to performance, and may assist in reducing the current discount between the Company's share price and NAV.

On May 2, 2017, the Company announced that its Public Shares had been admitted to the Official List of the UK Listing Authority and shares commenced trading on the Premium Segment of the Main Market of the LSE. Since then, investors have been able to trade a single class of PSH shares on both the LSE and Euronext Amsterdam under the same ISIN/SEDOL number. PSH shares are quoted and traded in Sterling in London and in USD on Euronext Amsterdam.

On May 31, 2017, it was announced that PSH shares had qualified for inclusion in the FTSE 250 and FTSE All-Share indices. The inclusion was effective on Monday, June 19, 2017.

In connection with the LSE listing, PSH changed its primary central securities depositary ("CSD") from the Nederlands Centraal Instituut voor Giraal Effectenverkeer BV ("Euroclear NL") to Euroclear UK & Ireland Limited ("Euroclear UI" or "CREST"). PSH's Public Shares are now accepted for clearance both through the book-entry facilities of Euroclear NL and CREST, the electronic securities settlement system operated by Euroclear UI which enables securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument.

As discussed in the Chairman's Statement, the Company has proposed to conduct a Company Tender for $300 million subject to applicable shareholder approvals which will be sought at the AGM.

Following completion of the Company Tender and depending on market conditions and other considerations, the Company may decide to utilise the remaining amount of the share buyback authority to acquire Public Shares in the market.

The Board remains committed to addressing the discount at which the Public Shares have traded in relation to NAV and the Board and its independent advisers have undertaken a detailed review of the discount management options available to the Company following feedback from shareholders, taking into account the circumstances of the Company's investment strategy and capital structure.

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

The Directors did not recommend the payment of a dividend for the year ended December 31, 2017 (2016: $nil).

DIRECTORS

The present members of the Board, all of whom are non-executive Directors, are listed on pages 19 to 20 and served throughout the year. Further information is provided on page 21 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 December 31, 2017, the Directors' interests in the Company were as follows:

Director	Class of Shares Held	Number of Shares
Richard Battey	Public Shares	4,000
Nicholas Botta	Management Shares	229,971
Anne Farlow	Public Shares	10,139
Jonathan Kestenbaum	Public Shares	10,000
William Scott	N/A	0

There have been no changes in the interests of Directors between December 31, 2017 and the date of signing this report, or, with respect to Jonathan Kestenbaum, until the date of his retirement.

There are no service contracts in place between the Company and the Directors. The Chairman of the Board is paid an annual fee of £75,000 and the Chairman of the Audit Committee is paid an annual fee of £55,000. The other independent Directors are currently paid an annual fee of £50,000 per annum. 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.

The Company maintains directors and officer's liability insurance in relation to the actions of the Directors on behalf of the Company.

MATERIAL CONTRACTS

The Company's material contracts are with:

- PSCM which serves as Investment Manager to the Company and, as such, manages the investments of the Company and the risks related thereto: PSCM receives a quarterly management fee and a performance fee, if any, from the Company as described more fully in Note 15;
- Elysium Fund Management Limited, which serves as Administrator and Morgan Stanley Fund Services (Bermuda) Ltd., which serves as Sub-Administrator. The Administrator provides the Company with certain administration services, including, among other things, the maintenance of the Company's accounting and statutory records, and the Administrator delegates certain of these services to the Sub-Administrator;
- Goldman Sachs & Co and UBS Securities LLC, which each serve as Prime Broker and Custodian for the Company;
- Fidante Capital plc, which serves as corporate broker for the Company; and
- Jefferies International Limited, which serves as corporate broker and buyback agent and which acted as sponsor for the Company in connection with the LSE listing.

The Board continuously monitors the performance of the Investment Manager and a formal review of the Investment Manager's performance was undertaken during 2017. Following a review of the Investment Manager's investment process, resources devoted to the Company and experience in managing fund vehicles, the Board determined that notwithstanding the disappointing performance of the Investment Manager for the year ended December 31, 2017, in the opinion of the Board, the continued appointment of the Investment

Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

The Directors reviewed the 2016 performance of the other service providers with material contracts in April 2017. The Board concluded that these service providers performed well during the 2016 financial year and that it is in the best interests of the Company to retain the services of these entities.

RISK MANAGEMENT

The Board has ultimate responsibility for risk management. Given that there are certain inherent risks related to the business and operations of the Company, the Board believes that developing an effective risk management strategy is crucial to the ongoing viability of the Company. The Board carries 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 Company is subject to a number of risks specific to its investment activities, structure and operations, as well as risks relating to general market conditions. The Board has adopted procedures and controls for the ongoing assessment, monitoring and mitigation of material risks and 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 (www.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.

Risks Related to Investment Activities

There are certain risks associated with the Investment Manager's investment activities that are largely a result of the Company's investment program (e.g., its highly concentrated portfolio) and certain investment techniques used by the Investment Manager, which are inherently risky (e.g., activist campaigns, short selling). In addition, the Company's investment strategy depends on the ability of the Investment Manager to successfully identify attractive investment opportunities.

With respect to the concentration of the Company's portfolio, the Board acknowledges that there are numerous risks associated with having a highly concentrated portfolio and that the primary risk management tool used by the Investment Manager is the extensive research performed by the investment team prior to investment, along with the ongoing monitoring of the position once held in the Company's portfolio. The Board reviews portfolio concentration and receives a detailed overview of the portfolio positions no less than quarterly, but more frequently as necessary.

The Investment Manager has broad investment authority in executing the Company's investment program and may use whatever investment techniques it believes are suitable for the Company, including novel or untested approaches. 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 depend on circumstances that are only partially within the control of the Investment Manager, particularly in the event of litigation or opposition of the target company's management, board or shareholders. The Board notes the Investment Manager's experience with activist campaigns and various investment strategies.

From time to time, the Investment Manager's investment program may include short selling, which theoretically could result in unlimited loss. The Board notes that 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.

In order to monitor risks related to the Investment Manager's activities, 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 portfolio positions, activist engagements, financial instruments used in the portfolio and the portfolio composition as a whole.

Risks Related to the Use of Leverage

The Company has incurred indebtedness as a result of issuing the Bonds, and may incur additional indebtedness in the future, provided that it complies with certain restrictive covenants contained in the Bonds' Indenture. While such leverage may have the effect of increasing losses, the Board notes that unlike margin debt, the Bonds do not have mark-to-market covenants which could require forced sales when equity prices decline.

The Board further notes that 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. The Company may however 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 reviews information regarding the Bonds and the Company's other forms of leverage at each quarterly Board meeting.

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. 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. To monitor regulatory risks, the Board is apprised of any regulatory inquiries and material regulatory developments.

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 affect its investment strategy on behalf of the Company. To address this risk, PSCM has an internal Director of Communications who works alongside an external public relations firm to monitor media coverage and actively engage with media sources as necessary. Internal PSCM personnel and the Board receive media clips daily to monitor public sentiment of PSCM's activities. The Board receives an update on media-related activity on a quarterly basis and considers measures to address concerns as they arise.

Risk Related to Business Continuity

The Investment Manager is dependent on William Ackman to conduct its investment advisory services as he has ultimate investment discretion with respect to all investment decisions. As a result, one of the principal risks to the business is the loss of Mr. Ackman. The Board notes that the investment team and other senior personnel at the Investment Manager are experienced, longstanding employees. The Board has reviewed the Investment Manager's succession plan and has deemed it to be satisfactory. The Board further notes that, if necessary, there are key man provisions in place that will trigger a continuation vote if a key man event occurs prior to October 2021.

The Company's Shares May Trade at a Significant Discount to NAV

Another principal risk to the Company is that the shares of the Company will trade at a significant discount to NAV or that ownership restrictions will affect the liquidity of the shares. For the recent actions the Company has taken to address the discount, please see "London Stock Exchange Listing and Discount Control" 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. The Board monitors the trading activity of the shares on a regular basis and addresses the discount to NAV at its regular quarterly meetings.

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. Further, the Company's non-U.S. currency investments may be affected by fluctuations in currency exchange rates. Prices of financial and derivative instruments in which the Company invests are subject to high volatility due to market risk.

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.

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. In order to mitigate this risk 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 Company invests substantially all cash collateral received in U.S. Treasuries 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.

GOING CONCERN

The Company's investment activities, together with factors likely to affect its future development, performance and position are set out in the Risk Management section 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, 2017 of $4,242,954,525;
- The liquidity of the Company's assets (at December 31, 2017, 69.6% of its assets comprised of cash and cash equivalents and Level 1 assets); and
- The Company's debt to capital ratio of 19.1% at December 31, 2017.

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 Principal 21 of the AIC Code, the Board has carefully considered the aforementioned principal risks 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, 2017 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 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 will be conducted annually by the Board.

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	Richard Battey
Chairman of the Board	Chairman of the Audit Committee
March 23, 2018	March 23, 2018

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 2017 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 2017 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.

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.

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 64 - 68, that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 31, 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' statement, set out on page 33, in the Financial Statements 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 33, 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 2017
Materiality	• Overall materiality of $40.9m 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 (2017 – assets: $3,885.3 million and liabilities: $6.2 million; 2016 – assets: $3,658.9 million and liabilities: $576.0 million) Refer to the Audit Committee Report (pages 25 - 27); Accounting policies (pages 47 - 49); and Note 7 of the Financial Statements (page 55 - 57) 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.	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 and determined whether significant assumptions used to estimate fair value are reasonable and appropriately supported. For options, forwards, swaps and warrants we instructed our internal valuation specialists to independently value a sample of positions and we compared their values to the Company's valuations. Agreed value of all investments to independent sources as at 31 December 2017. Assessed whether the valuation determined is in accordance with IFRS. Considered the requirements of ISA 315 in relation to the risk of management override.	No significant findings were identified in respect of investment valuation.

The risk above has been modified from the previous year, where it applied only to the valuation of investments other than Level One. In the current year the portfolio consists of Level One and non-complex Level Two investments only, the valuation of which is not considered to be judgmental or subject to management bias.

In the prior year, our auditor's report included a risk of material misstatement in relation to accounting for the offset amount element of performance fees. In the current year we believe that the risk of material misstatement in relation to this issue has significantly reduced as a result of an amendment to the Investment Management Agreement during 2016 to clarify the language describing the calculation of performance fees, effective retroactively to the inception of the agreement.

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 $40.9 million (2016: $43.6 million), which is 1% (2016: 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% (2016: 75%) of our planning materiality, namely $30.7m (2016: $32.7m). 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 $2.0m (2016: $2.2m), 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 report as uncorrected material misstatements of the other information where we conclude that:

- **Fair, balanced and understandable**, set out on page 34 – 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 25 - 27 – 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 21 – 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 33 - 34, 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.

/s/ Christopher James Matthews
Christopher James Matthews, FCA
For and on behalf of Ernst & Young LLP
Guernsey
March 23, 2018

(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, 2017, 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, 2017, 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 23, 2018

Statement of Financial Position
(Stated in United States Dollars)

	Notes	2017	2016
Assets			
Cash and cash equivalents	10	$ 1,082,102,874	$ 2,076,161,696
Due from brokers	13	710,597,200	542,850,061
Trade and other receivables	9	18,520,293	11,740,284
Financial assets at fair value through profit or loss			
Investments in securities	6	3,140,815,503	2,636,767,173
Derivative financial instruments	6, 8	744,454,840	1,022,162,881
Total assets		**$ 5,696,490,710**	**$ 6,289,682,095**
Liabilities			
Due to brokers	13	$ 340,795,000	$ 150,995,192
Trade and other payables	9	91,121,135	32,313,479
Financial liabilities at fair value through profit or loss			
Securities sold, not yet purchased	6	-	385,314,274
Derivative financial instruments	6, 8	6,192,314	190,734,223
Bonds	18	1,015,427,736	1,013,552,905
Liabilities excluding net assets attributable to management shareholders		1,453,536,185	1,772,910,073
Net assets attributable to management shareholders(1)	11	156,268,350	161,137,460
Total liabilities		**1,609,804,535**	**1,934,047,533**
Equity			
Share capital	11	5,927,042,332	6,003,372,824
Accumulated deficit		(1,840,356,157)	(1,647,738,262)
Total equity(2)		**4,086,686,175**	**4,355,634,562**
Total liabilities and equity		**$ 5,696,490,710**	**$ 6,289,682,095**
Net assets attributable to Public Shares		$ 4,086,575,831	$ 4,355,519,077
Public Shares in issue		234,716,810	240,128,546
Net assets per Public Share		$ 17.41	$ 18.14
Net assets attributable to Management Shares		$ 156,268,350	$ 161,137,460
Management Shares in issue		8,500,796	8,500,796
Net assets per Management Share		$ 18.38	$ 18.96
Net assets attributable to Special Voting Share		$ 110,344	N/A
Special Voting Share in issue		1	N/A
Net assets per Special Voting Share		$ 110,343.92	N/A
Net assets attributable to Class B Shares		N/A	$ 115,485
Class B Shares in issue		N/A	5,000,000,000
Net assets per Class B Share		N/A	$ 0.00002

(1) Net assets attributable to management shareholders are comprised of the aggregate net asset values of all Management Shares as of December 31, 2017 and December 31, 2016, 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, 2017 and Public Shares and Class B Shares as of December 31, 2016. Under IFRS, Management Shares are classified as financial liabilities rather than equity. See Note 2 on page 51 for further details.

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

Statement of Financial Position (continued)
(Stated in United States Dollars)

These Financial Statements on pages 40 to 72 were approved by the Board of Directors on March 23, 2018, 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 23, 2018	March 23, 2018

Statement of Comprehensive Income

(Stated in United States Dollars)

	Notes	2017	2016
Investment gains and losses			
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss		$ (35,276,471)	$ (494,233,038)
Net realized gain/(loss) on commodity interests		(14,319,885)	(71,064,508)
Net change in unrealized gain/(loss) on commodity interests (net of brokerage commissions of (2017: $118,644, 2016: $629,978))		1,270,848	(2,682,541)
	6	(48,325,508)	(567,980,087)
Income			
Dividend income		59,962,586	49,703,578
Interest income	12	1,140,593	624,621
Other income		5,693	71,186
		61,108,872	50,399,385
Expense			
Management fees	15	(63,211,761)	(63,143,490)
Interest expense	12	(64,667,520)	(64,812,601)
Legal reserve	14	(57,219,862)	(29,176,480)
Professional fees		(11,963,798)	(10,661,364)
Other expenses		(3,394,472)	(1,107,012)
		(200,457,413)	(168,900,947)
Profit/(loss) before tax attributable to equity and management shareholders		**(187,674,049)**	**(686,481,649)**
Withholding tax (dividends)		(9,812,956)	(13,256,001)
Profit/(loss) attributable to equity and management shareholders		**(197,487,005)**	**(699,737,650)**
Amounts attributable to management shareholders		(4,869,110)	(22,231,044)
Profit/(loss) attributable to equity shareholders[1]		**$ (192,617,895)**	**$ (677,506,606)**
Earnings per share (basic & diluted) [2]			
Public Shares	17	$ (0.81)	$ (2.82)
Special Voting Share	17	$ (5,141.58)	N/A
Class B Shares	17	$ N/A	$ (0.00)

All the items in the above statement are derived from continuing operations.

There is no other comprehensive income for the years ended 2017 and 2016.

(1) Profit/(loss) attributable to equity shareholders is comprised of the net profits earned and losses incurred by shareholders of Public Shares, Class B 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 2017 and 2016 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

(Stated in United States Dollars)

	Net Assets Attributable to Management Shareholders
As at December 31, 2016	**$ 161,137,460**
Amounts attributable to management shareholders	(4,869,110)
As at December 31, 2017	**$ 156,268,350**

	Net Assets Attributable to Management Shareholders
As at December 31, 2015	**$ 183,368,504**
Amounts attributable to management shareholders	(22,231,044)
As at December 31, 2016	**$ 161,137,460**

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

Statement of Changes in Equity

(Stated in United States Dollars)

	Share Capital	Accumulated Deficit	Total Equity
As at December 31, 2016[(1)]	**$ 6,003,372,824**	**$ (1,647,738,262)**	**$ 4,355,634,562**
Total profit/(loss) attributable to equity shareholders[(2)]	-	(192,617,895)	(192,617,895)
Share buybacks[(3)]	(76,330,492)	-	(76,330,492)
As at December 31, 2017[(1)]	**$ 5,927,042,332**	**$ (1,840,356,157)**	**$ 4,086,686,175**

	Share Capital	Accumulated Deficit	Total Equity
As at December 31, 2015	**$ 6,003,372,824**	**$ (970,231,656)**	**$ 5,033,141,168**
Total profit/(loss) attributable to equity shareholders[(4)]	-	(677,506,606)	(677,506,606)
As at December 31, 2016[(1)]	**$ 6,003,372,824**	**$ (1,647,738,262)**	**$ 4,355,634,562**

(1) 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, 2017 and Public Shares and Class B Shares as of December 31, 2016. Under IFRS, Management Shares are classified as financial liabilities rather than equity. See Note 2 on page 51 for further details.

(2) Profit/(loss) attributable to equity shareholders is comprised of the net profits earned and losses incurred by shareholders of Public Shares, Class B Shares and the Special Voting Share.

(3) On May 2, 2017, the Company began its share buyback program whereby its buyback agent began to repurchase Public Shares subject to certain limitations. Any repurchased Public Shares are subsequently retired. See Note 11 for further details.

(4) Profit/(loss) attributable to equity shareholders is comprised of the net profits earned and losses incurred by shareholders of Public Shares and Class B Shares.

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

Statement of Cash Flows

(Stated in United States Dollars)

	Notes	2017	2016
Cash flows from operating activities			
Profit/(loss) for the year attributable to equity and management shareholders		$ (197,487,005)	$ (699,737,650)
Adjustments to reconcile changes in profit/(loss) for the year to net cash flows:			
Bond interest expense	18	56,874,831	56,744,142
Bond interest paid(1)	18	(55,000,000)	(57,902,776)
(Increase)/decrease in operating assets:			
Due from brokers		(167,747,139)	51,272,796
Trade and other receivables	9	(6,780,009)	(2,568,885)
Investments in securities	6	(504,048,330)	2,719,442,004
Derivative financial instruments	6	277,708,041	(522,777,030)
Increase/(decrease) in operating liabilities:			
Due to brokers		189,799,808	18,617,575
Trade and other payables	9	57,304,938	29,637,889
Securities sold, not yet purchased	6	(385,314,274)	(1,740,838)
Derivative financial instruments	6	(184,541,909)	64,760,020
Net cash (used in)/from operating activities		**(919,231,048)**	**1,655,747,247**
Cash flows from financing activities			
Purchase of Public Shares	11	(74,827,774)	-
Net cash (used in)/from financing activities		**(74,827,774)**	**-**
Net change in cash and cash equivalents		(994,058,822)	1,655,747,247
Cash and cash equivalents at beginning of year		2,076,161,696	420,414,449
Cash and cash equivalents at end of year	10	**$ 1,082,102,874**	**$ 2,076,161,696**
Supplemental disclosure of cash flow information			
Cash paid during the year for interest		$ 63,095,570	$ 66,648,123
Cash received during the year for interest		$ 1,087,551	$ 634,615
Cash received during the year for dividends		$ 56,062,606	$ 50,032,559
Cash deducted during the year for withholding taxes		$ 9,839,294	$ 13,412,324
Equity securities (with unrealized appreciation of $28,099,616) received in-kind for proceeds from the distribution from PS V International, Ltd.		$ -	$ 94,502,389

(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.

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 (www.pershingsquareholdings.com).

Investment Objective and Policy

The Company's investment objective is to preserve capital and to seek maximum, long-term capital appreciation commensurate with reasonable risk. The Company seeks to achieve its investment objective through long (and occasionally short) positions in equity or debt securities of public U.S. and non-U.S. issuers (including securities convertible into equity or debt securities), derivative instruments and any other financial instruments that the Investment Manager believes will achieve the Company's investment objective. Please refer to "Investment Objective and 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, and William Scott, all of whom are non-executive Directors. Anne Farlow is the Chairman of the Board. In addition, 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.

Committees of the Board

The Board has established an Audit Committee, a Management Engagement 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 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.

Notes to Financial Statements (continued)

1. CORPORATE INFORMATION (continued)

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. In connection with the listing, at the annual general meeting held on April 25, 2017, the shareholders of the Company amended the Articles of Incorporation and authorized, among other things, the exchange of the 5,000,000,000 Class B Shares held by VoteCo (as defined below) for a Special Voting Share and the amendment of the Company's investment policy to add the following investment restrictions: (i) no more than 10%, in aggregate, of the Company's total assets can be invested 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 and (ii) investments in (or 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.

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 and having considered in particular its holding of cash and Level 1 assets held at fair value through profit or loss, 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

(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.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, cancelled 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.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 2017 and 2016, investments where no market prices were available 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.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. treasuries 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.

Notes to Financial Statements (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets Attributable to Management Shareholders

In accordance with IAS 32, the Company classifies its Public Shares, Class B 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 the 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 offset amount. 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 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,

Notes to Financial Statements (continued)

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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 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 crystallises, 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. and Pershing Square VI International, L.P., 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., commenced operations on July 24, 2017 and are affiliated investment funds. As of December 31, 2017, the Company held an investment in Pershing Square VI International, L.P. ("PS VI"), which is 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 investment in PS VI are reflected in the statement of comprehensive income for the year ended 2017. The maximum exposure to loss from these investments at December 31, 2017 was equal to the amount of the Company's investment in PS VI. 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 investment 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 PS VI should be classified as a structured entity. The Company has considered the terms of the investment management agreement between PS VI 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 its contractual agreement with the Investment Manager.

The Company, therefore, has concluded that PS VI is a structured entity.

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.

Notes to Financial Statements (continued)

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

The following relevant standards, which have been issued by the IASB, have an effective date after the date of these Financial Statements:

International Accounting Standards (IAS/IFRS)	Description	Effective Date
IFRS 9	Financial Instruments	January 1, 2018

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments that replaces IAS 39, Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Directors have chosen not to early adopt the above standard and will adopt it on the required effective date. The Company has performed an impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional information made available to the Company in the future. Overall, the Company expects no impact on its statement of financial position and equity.

i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Based on the Company's initial assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Company. This is because:

a) Other financial instruments currently measured at fair value through profit or loss under IAS 39 are designated into this category because they are managed on a fair value basis in accordance with a documented investment strategy. These investments are not expected to meet the SPPI criterion (solely payments of principal and interest) and accordingly, these financial instruments will be mandatorily measured at fair value through profit or loss under IFRS 9; and

b) Financial instruments currently measured at amortized cost are: cash and cash equivalents, receivables and payables. These instruments meet the solely principal and interest criterion and are held in a held-to-collect business model. Accordingly, they will continue to be measured at amortized cost under IFRS 9.

The Company measures all financial assets and liabilities at fair value which are currently held at fair value and expects to continue with this treatment.

ii) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all investment income and other receivables. Given that investment income and other receivables have not been impaired to date, the Company does not expect there to be a significant impact on its equity from recording the expected credit losses on investment income and other receivables over their lifetimes.

iii) Hedge accounting

The Company does not currently designate any hedges as effective hedging relationships which qualify for hedge accounting. Therefore, the Company does not expect there to be any impact with respect to hedge accounting on the Company as a result of applying IFRS 9.

The Company has assessed the impact under IFRS 15 and determined that it will not have an effect on the Company's Financial Statements as the Company does not have any contracts with customers which meet the definition under IFRS 15.

Notes to Financial Statements (continued)

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 investment strategy and the Company's performance is evaluated on an overall basis. The Company has a portfolio of long and 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:

	2017	2016
Financial assets at fair value through profit or loss		
Investments in securities	$ 3,140,815,503	$ 2,636,767,173
Derivative financial instruments	744,454,840	1,022,162,881
Financial assets at fair value through profit or loss	**$ 3,885,270,343**	**$ 3,658,930,054**

Financial liabilities at fair value through profit or loss:

	2017	2016
Financial liabilities at fair value through profit or loss		
Securities sold, not yet purchased	$ -	$ 385,314,274
Derivative financial instruments	6,192,314	190,734,223
Financial liabilities at fair value through profit or loss	**$ 6,192,314**	**$ 576,048,497**

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

	2017			2016		
	Realized	Unrealized	Total Gains/(Losses)	Realized	Unrealized	Total Gains/(Losses)
Financial assets						
At fair value through profit or loss	$ (1,415,516,018)	$ 1,515,299,610	**$ 99,783,592**	$ 310,568,832	$ (760,589,597)	**$ (450,020,765)**
Financial liabilities						
At fair value through profit or loss	(132,101,825)	(63,160,453)	**(195,262,278)**	(42,833,669)	92,131,134	**49,297,465**
Derivative financial instruments	73,779,646	(26,626,468)	**47,153,178**	(344,335,912)	177,079,125	**(167,256,787)**
Net changes in fair value	$ (1,473,838,197)	$ 1,425,512,689	**$ (48,325,508)**	$ (76,600,749)	$ (491,379,338)	**$ (567,980,087)**

Notes to Financial Statements (continued)

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, treasuries (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 is the Company's investment in an affiliated entity 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

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000	$000	$000	$000	$000
Financial Assets:								
Equity Securities (Designated at Fair Value):								
Common Stock:								
Business Services	$ 449,085	$ -	$ -	$ 449,085	$ -	$ -	$ -	$ -
Chemicals	171,225	-	-	171,225	169,327	-	-	169,327
Consumer Products	503,835	-	-	503,835	560,295	-	-	560,295
Financial Services	207,627	-	-	207,627	272,162	-	-	272,162
Healthcare	-	-	-	-	127,487	-	-	127,487
Industrials/Chemicals	-	-	-	-	89,828	-	-	89,828
Real Estate Development and Operating	271,399	-	-	271,399	142,018	-	-	142,018
Restaurant	1,269,811	-	-	1,269,811	1,265,153	-	-	1,265,153
Preferred Stock:								
Financial Services	10,983	30	-	11,013	10,253	244	-	10,497
Investment in Affiliated Entity	-	256,821 ④	-	256,821	-	-	-	-
Derivative Contracts (Held for Trading):								
Currency Call/Put Options Purchased	-	131 ①	-	131	-	12,303 ①	-	12,303
Equity Options Purchased:								
Business Services	-	319,031 ①	-	319,031	-	-	-	-
Consumer Products	-	367,196 ①	-	367,196	-	284,692 ①	-	284,692
Healthcare	-	-	-	-	-	4,113 ①	-	4,113
Industrials/Chemicals	-	-	-	-	-	530,831 ①	-	530,831
Index Options Purchased	-	402 ①	-	402	-	-	-	-
Foreign Currency Forward Contracts	-	-	-	-	-	5,329 ①	-	5,329
Total Return Swaps:								
Financial Services	-	35,401 ②	-	35,401	-	86,633 ②	-	86,633
Real Estate Development and Operating	-	22,294 ②	-	22,294	-	53,602 ②	-	53,602
Warrants:								
Real Estate Development and Operating	-	-	-	-	-	-	44,660 ③	44,660
Total	$ 2,883,965	$ 1,001,306	$ -	$ 3,885,271	$ 2,636,523	$ 977,747	$ 44,660	$ 3,658,930

Notes to Financial Statements (continued)

7. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

	2017				2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$000	$000	$000	$000	$000	$000	$000	$000
Financial Liabilities:								
Debt Securities (Held for Trading):								
Convertible Bonds:								
Consumer Products	$ -	$ -	$ -	$ -	$ -	$ 27,154	$ -	$ 27,154
Equity Securities (Held for Trading):								
Common Stock:								
Consumer Products	-	-	-	-	358,160	-	-	358,160
Derivative Contracts (Held for Trading):								
Equity Options Written:								
Healthcare	-	-	-	-	-	190,734 ①	-	190,734
Foreign Currency Forward Contracts	-	741 ①	-	741	-	-	-	-
Total Return Swaps:								
Consumer Products	-	488 ②	-	488	-	-	-	-
Financial Services	-	4,964 ②	-	4,964	-	-	-	-
Net assets attributable to management shareholders	-	-	156,268 ⑤	156,268	-	-	161,137 ⑤	161,137
Total	$ -	$ 6,193	$ 156,268	$ 162,461	$ 358,160	$ 217,888	$ 161,137	$ 737,185

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 Level 3 investments include warrants that are fair valued by the Investment Manager using prices obtained from an independent third-party valuation agent. The independent third-party valuation agent utilizes proprietary models to determine fair value. The valuation agent's 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 price, dividend yields and/or interest rates. The valuation committee of the Investment Manager considers the appropriateness of the valuation methods and inputs, 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.

④ This figure relates to the Company's investment in PS VI as of the year ended 2017, as discussed in Note 16. The Company's investment in PS VI included 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 underlying investments 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.

⑤ 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 so that 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.

Notes to Financial Statements (continued)

7. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

The Company's cash and cash equivalents and short-term receivables and payables are recorded at carrying value which approximates fair value. The fair value of the Bonds is classified as Level 1 and the carrying 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 one transfer out of Level 3 (as discussed below) 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 years ended 2017 and 2016.

		Warrants
Balance at December 31, 2015	**$**	**45,561,789**
Total gains and losses in profit or loss		(901,521)
Balance at December 31, 2016	**$**	**44,660,268**
Transfer*		(49,193,147)
Total gains and losses in profit or loss		4,532,879
Balance at December 31, 2017	**$**	**-**
Total unrealized gains and losses for the year included in profit or loss for assets held at December 31, 2016	$	(901,521)

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

All gains and losses from Level 3 securities during the year are recognized in net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss in the statement of comprehensive income.

Quantitative Information of Significant Unobservable Inputs – Level 3

The table below summarizes quantitative information about the unobservable inputs used in the fair value measurement and the valuation processes used by the Company for Level 3 securities for the year ended 2016. The Company did not hold Level 3 investments as of December 31, 2017.

Financial Asset	Year Ended	Fair Value	Valuation Techniques	Unobservable Input	Inputs[1]
Warrants	2016	$ 44,660,268	Black-Scholes pricing model	Volatility	49%

(1) Refer to footnote ③ on page 56 for details regarding level 3 valuation techniques.

Sensitivity Analysis to Significant Changes in Unobservable Inputs with Level 3 Hierarchy

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis are shown as follows:

Financial Asset	Year Ended	Unobservable Input	Sensitivity Used *	Effect on Fair Value
Warrants	2016	Volatility	+2	$ 74,138
Warrants	2016	Volatility	-2	$ (66,999)

*The sensitivity analysis refers to the volatility unit added and deducted from the input and the effect this has on the fair value.

Notes to Financial Statements (continued)

8. DERIVATIVE CONTRACTS

In the normal course of business, the Company enters into derivative contracts for investment purposes. Typically, derivative contracts serve as components of the Company's investment strategies and are utilized primarily to structure the portfolio to match economically the investment objectives of the Company. 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 risks associated with its investing activities as part of its overall risk management policy.

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, pays 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 December 31, 2017, the Company had no written options. At December 31, 2016, the Company had a maximum payout amount of $254,480,220 relating to written equity put option contracts. The maximum payout amount could be offset by the subsequent sale of the financial instrument obtained via the exercise of the option. The fair value of these positions as of December 31, 2016 was ($190,734,223).

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.

Notes to Financial Statements (continued)

8. DERIVATIVE CONTRACTS (continued)

Currency Options

Currency options operate as described under Options above 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 foreign 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 foreign portfolio holdings.

The following table shows the fair values of derivative financial instruments recorded as assets or liabilities as of December 31, 2017 and December 31, 2016, 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.

	2017		2016	
	Fair Value	**Notional/Shares**	**Fair Value**	**Notional/Shares**
Derivatives primarily held for trading purposes				
Assets				
Equity options purchased	$ 686,227,695	29,330,970 #	$ 819,635,713	46,541,690 #
Index options purchased	401,528	53,537 ^	-	-
Total return swaps	57,694,708	35,199,930 #	140,234,925	54,263,258 #
Warrants	-	-	44,660,268	688,138 #
Total Assets	$ 744,323,931		$ 1,004,530,906	
Liabilities				
Equity options written	$ -	-	$ 190,734,223	4,241,337 #
Total return swaps	5,451,422	17,031,076 #	-	-
Total Liabilities	$ 5,451,422		$ 190,734,223	
Derivatives primarily held for risk management purposes				
Assets				
Currency call/put options purchased	$ 130,909	$ 266,615,000 ±	$ 12,302,780	$ 393,533,000 ±
Foreign currency forward contracts	-	-	5,329,195	$ 292,125,154 ±
Total Assets	$ 130,909		$ 17,631,975	
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, 2017 and December 31, 2016 included in net gain/(loss) on financial assets and financial liabilities.

Derivatives for Trading Activities	Year Ended 2017 Net Gain/(Loss)	Year Ended 2016 Net Gain/(Loss)
Credit Default Swaps	$ -	$ (41,881)
Currency Call/Put Options	(13,049,037)	(73,747,050)
Equity Forwards	(12,799,496)	(20,186,341)
Equity Options	45,451,271	(175,518,160)
Foreign Currency Forward Contracts	(21,168,161)	(36,018,424)
Index Options	(5,631,370)	-
Total Return Swaps	56,771,295	139,156,590
Warrants	(2,421,324)	(901,521)
Total Net Gain/(Loss)	$ 47,153,178	$ (167,256,787)

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.

Notes to Financial Statements (continued)

8. DERIVATIVE CONTRACTS (continued)

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 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 brokers in the statement of financial position.

As of December 31, 2017	(1) Gross Amounts	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Offsetting Permitted Under ISDA Netting Agreements	(2) Cash Collateral Pledged/(Received)	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	$ -	$ -

As of December 31, 2016	(1) Gross Amounts	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Offsetting Permitted Under ISDA Netting Agreements	(3) Cash Collateral Pledged/(Received)	Net Amount
Derivative Assets	$ 780,791,498	$ -	$ 780,791,498	$ (190,734,223)	$ (590,057,275)	$ -
Total	$ 780,791,498	$ -	$ 780,791,498	$ (190,734,223)	$ (590,057,275)	$ -
Derivative Liabilities	$ (190,734,223)	$ -	$ (190,734,223)	$ 190,734,223	$ -	$ -
Total	$ (190,734,223)	$ -	$ (190,734,223)	$ 190,734,223	$ -	$ -

(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 $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.

(3) In addition, the Company has also received collateral of approximately $12.9 million and posted collateral of approximately $511.9 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.

	2017	2016
Trade and other receivables		
Dividends receivable	$ 12,048,233	$ 8,121,916
Interest and other receivables	6,472,060	3,618,368
	$ 18,520,293	$ 11,740,284

	2017	2016
Trade and other payables		
Interest payable	$ 199,851	$ 502,732
Legal reserve (see Note 14)	86,396,342	29,176,480
Other payables	4,524,942	2,634,267
	$ 91,121,135	$ 32,313,479

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.

	2017	2016
Cash at banks	$ 116,832	$ 86,604
U.S. Treasury money market fund	1,081,986,042	2,076,075,092
	$ 1,082,102,874	$ 2,076,161,696

As of December 31, 2017, money market fund investments in Goldman Sachs Financial Square Treasury Instruments Fund, JPMorgan 100% U.S. Treasury Securities Money Market Fund and BlackRock Liquidity Funds Treasury Trust Fund exceeded 5% of net assets attributable to all shareholders with fair values of $549,929,632, $266,362,549 and $265,693,861, respectively.

Notes to Financial Statements (continued)

11. SHARE CAPITAL

Authorized and Issued Capital

The Board of the Company is authorized to issue an unlimited number of shares, and such other 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. In 2017, the Company amended its Articles of Incorporation in accordance with LSE listing rules which required the incorporation of 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 2017 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) 24,012,854 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 2017 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 2017 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.

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

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 specific matters described below ("Specified Matters") 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 shareholders, including certain members, partners, officers, managers, employees or affiliates of the Investment Manager or certain other shareholders.

Lock-up

Mr. Ackman and other members of the management team and officers of the Investment Manager have each agreed with the Company to a lock-up of ten years commencing from October 1, 2014, of their aggregate Management Shares held at that time, less amounts (i) attributable to any sales required to pay taxes on income generated by the Company; (ii) required to be sold due to regulatory constraints, including, without limitation, sales required due to ownership limits; or (iii) attributable to sales following separation of employment from the Investment Manager. Under the terms of the lock-up arrangement, shares subject to lock up may from time to time be transferred to affiliates, provided that the transferee agrees to be subject to the remaining lock-up period. Additional Public Shares purchased in the market and converted to Management Shares (if approved by shareholders) will not be subject to the foregoing lock-up.

As of December 31, 2017 and December 31, 2016, the total Management Shares outstanding were 8,500,796 with a value of $156,268,350 (2016: $161,137,460).

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.

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.

Notes to Financial Statements (continued)

11. SHARE CAPITAL (continued)

Specified Matters

In order to comply with the LSE listing rules, the Company was required to make certain revisions to its shareholder voting structure. The LSE listing rules require that only holders of the Public Shares should be permitted to vote on certain Specified Matters.

As a result of such changes, 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 LSE listing rules. Please refer to Part 6 of the 2017 Notice of Annual General Meeting for a list of the Specified Matters, current as of the date of the Notice.

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 2017 and 2016.

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). On April 25, 2017, the Company held its annual general meeting at which shareholders authorized the Company to engage in share buybacks up to a maximum of 14.99% of the Public Shares in issue in an effort to assist in narrowing the discount to NAV at which the Public Shares traded. On May 2, 2017, the Company commenced its share buyback program whereby its buyback agent, Jefferies International Limited, began to repurchase Public Shares subject to certain limitations. During the year ended December 31, 2017, the Company repurchased 5,411,736 Public Shares for a total of $76,330,492 (an average cost of $14.10 per share). Any repurchased Public Shares are subsequently retired.

Also, as discussed on page 61, 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.

Notes to Financial Statements (continued)

11. SHARE CAPITAL (continued)

The Public Shares, Management Shares and Class B Shares / Special Voting Share transactions for the years ended December 31, 2017 and December 31, 2016 were as follows:

	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**

	Management Shares	Public Shares	Class B Shares
Shares as of December 31, 2015	**8,500,796**	**240,128,546**	**5,000,000,000**
Issuance of Shares	-	-	-
Shares as of December 31, 2016	**8,500,796**	**240,128,546**	**5,000,000,000**

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	**2017**	**2016**
Cash	$ 157,926	$ 21,209
Due from brokers on collateral posted	982,667	603,412
	$ 1,140,593	$ 624,621

Interest Expense	**2017**	**2016**
Short market rebate fees	$ 4,985,280	$ 7,366,549
Bond interest expense	54,823,788	54,696,150
Amortization of bond issue costs incurred as finance costs	2,051,043	2,047,992
Interest expense on securities sold, not yet purchased	472,210	258,156
Amortization of premiums on securities sold, not yet purchased	(266,064)	(148,575)
Due to brokers on collateral received	2,600,862	591,275
Cash	401	1,054
	$ 64,667,520	$ 64,812,601

Notes to Financial Statements (continued)

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 (along with the other PSCM-managed funds') portfolio as compared to most other hedge funds is that it does not generally use margin leverage in its investment strategy.

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 the Risk Management section within the Report of the Directors 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, 2017 is presented in the Condensed Schedule of Investments on pages 73 to 74 (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, 2017 and December 31, 2016 cash and cash equivalents equalled $1,082,102,874 and $2,076,161,696, respectively. The Bonds have no

Notes to Financial Statements (continued)

13. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 73 to 74 (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, 2017 and December 31, 2016 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 (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)

Currency (2016)	Net Foreign Currency Exposure	Change in Currency Rate	Effect on Net Assets Attributable to all Shareholders and on Profit/(Loss) for the Year
CAD	$ 639,512,522	+7%	$ 36,016,234
EUR	$ 12,302,780	-5%	$ 14,815,114
EUR	$ 12,302,780	+5%	$ (9,259,078)

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), a significant risk to the portfolio is fluctuations in equity prices. Refer to the 2017 Key Highlights and Investment Manager's Report on pages 6 to 18 for quantitative and qualitative discussion of the Company's portfolio and the Condensed Schedule of Investments on pages 73 to 74 (each of which is explicitly incorporated by reference into these Notes to Financial Statements) for additional details of 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 (2017)	% Change in Net Assets Attributable to all Shareholders
+9%	+10%
-9%	-10%

Change in Equity Price (2016)	% Change in Net Assets Attributable to all Shareholders
+8%	+9%
-8%	-9%

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).

	2017	2016
North America	100%	100%
Total	100%	100%

Notes to Financial Statements (continued)

13. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	2017	2016
Restaurant	33%	41%
Business Services	26%	-
Consumer Products (Long Exposure)	18%	27%
Real Estate Development and Operating	8%	8%
Financial Services	6%	12%
Consumer Products (Short Exposure)	5%	-12%
Industrials/Chemicals	4%	26%
Healthcare	-	-2%
Total	100%	100%

Liquidity Risk

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:

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:						
Securities sold, not yet purchased	-	-	-	-	-	-
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**

As of December 31, 2016	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	$ 2,076,161,696	$ -	$ -	$ -	$ -	$ 2,076,161,696
Due from brokers	542,850,061	-	-	-	-	542,850,061
Trade and other receivables	11,740,284	-	-	-	-	11,740,284
Financial assets at fair value through profit or loss:						
Investments in securities	1,154,837,050	833,969,385	518,477,918	73,071,908	56,410,912	2,636,767,173
Derivative financial instruments	437,149,176	534,021,978	19,791,862	13,460,397	17,739,468	1,022,162,881
Total assets	**$ 4,222,738,267**	**$ 1,367,991,363**	**$ 538,269,780**	**$ 86,532,305**	**$ 74,150,380**	**$ 6,289,682,095**
Liabilities						
Due to brokers	$ 150,995,192	$ -	$ -	$ -	$ -	$ 150,995,192
Trade and other payables	32,313,479	-	-	-	-	32,313,479
Bonds	27,500,000	-	-	27,500,000	1,275,000,000	1,330,000,000
Financial liabilities at fair value through profit or loss:						
Securities sold, not yet purchased	123,231,697	240,861,954	21,220,623	-	-	385,314,274
Derivative financial instruments	190,734,223	-	-	-	-	190,734,223
Total liabilities excluding net assets attributable to management shareholders	524,774,591	240,861,954	21,220,623	27,500,000	1,275,000,000	2,089,357,168
Net assets attributable to management shareholders	-	12,942,713	-	-	148,194,747	161,137,460
Total liabilities	**$ 524,774,591**	**$ 253,804,667**	**$ 21,220,623**	**$ 27,500,000**	**$ 1,423,194,747**	**$ 2,250,494,628**

Notes to Financial Statements (continued)

13. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 a member of the Investment Manager holds a board seat 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. Treasuries 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 (along with the other PSCM-managed funds') exposure 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 73 to 74 (which is explicitly incorporated by reference into these Notes to Financial Statements) for additional details of 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 $455,627,478 and $498,971,659 at December 31, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, 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 (2017: $1,082,102,874, 2016: $2,076,161,696), due from brokers (2017: $710,597,200, 2016: $542,850,061) and financial assets portfolio (2017: $3,885,270,343, 2016: $3,658,930,054) based on the underlying custodians' and counterparties' credit rating.

	2017	2016
AAA	19%	33%
A	81%	67%
Total	100%	100%

Notes to Financial Statements (continued)

13. FINANCIAL RISK AND MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

Due from brokers	2017	2016
Cash held at prime brokers	$ 657,035,563	$ 486,959,736
Gross ISDA collateral posted	678,665,245	511,002,848
Netting of collateral allowable under ISDA agreements	(625,103,608)	(455,112,523)
	$ 710,597,200	$ 542,850,061

Due to brokers	2017	2016
Gross ISDA collateral received	$ (772,623,608)	$ (602,952,523)
Pending settlements	(193,275,000)	(3,155,192)
Netting of collateral allowable under ISDA agreements	625,103,608	455,112,523
	$ (340,795,000)	$ (150,995,192)

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") are 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 pending in the U.S. District Court for the Central District of California, relating to the investment by the Pershing Square Parties in Allergan, Inc. ("Allergan"). The court files in the cases are available to the public. In each case, plaintiffs allege the defendants violated federal securities laws in their trading in Allergan common shares and related derivatives. The defendants believe they have meritorious defenses to plaintiffs' claims. Under the court's schedule, a trial in the Stock Class Action, if needed, was to commence on February 26, 2018.

In consultation with counsel, a $75 million reserve was taken at December 31, 2016 for the potential settlement of the Stock Class Action and allocated proportionately across the Company and three affiliated entities managed by the Investment Manager (the "Core Funds"), based on their adjusted net asset values. During the year ended December 31, 2016, the Company was allocated $29,176,480 for this reserve which is included in trade and other payables in the statement of financial position.

The defendants and plaintiffs in the Stock Class Action each filed motions for summary judgment on July 10, 2017, arguing that the case could be resolved in their respective favors based on the undisputed factual record. The motions were heard in December 2017, and the Court indicated tentatively that it would rule in favor of Plaintiffs on certain matters.

On December 28, 2017, in consultation with counsel and with the assistance of mediators who are expert in securities class actions, the Pershing Square Parties and the Valeant Parties entered into settlements in principle with the plaintiffs in the Stock Class Action and the Derivatives Class Action to resolve both matters for a total payment of $290 million ($250 million for the Stock Class Action and $40 million for the Derivatives Class Action), of which the Pershing Square Parties are to bear $193.75 million and the Valeant Parties are to bear $96.25 million. Of the incremental $118.75 million reserve accrued during the year ended December 31, 2017, the Company was allocated $57,219,862 bringing the total amount payable by the Company to $86,396,342 which is included in trade and other payables in the statement of financial position.

On January 16, 2018, the District Court in California held a hearing to discuss the fairness of the proposed settlement and during the hearing indicated that the settlement appears to be fair and reasonable to all parties in light of the risks and burdens involved if they were to pursue both cases through trials and appeals. Since then, the parties have exchanged and agreed upon stipulations of settlement and notices to class members in the respective cases, which are still subject to court approval. On March 5, 2018, the Court held a hearing on the parties' motion for preliminary approval, which the Court granted. A hearing on final approval of the settlement, following notice of its terms given to class members, has been scheduled for May 30, 2018. The full settlement approval process, including an opportunity for class members potentially to object to the settlements or (in the case of the Derivatives Class Action only) to opt out of the settlement, is expected to take until approximately August 2018 to be completed.

Other than above and as disclosed in Note 8, there were no other commitments or contingencies as of December 31, 2017 and December 31, 2016.

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

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

Management Fee

The Investment Manager receives a quarterly management fee payable in advance each quarter in an

Notes to Financial Statements (continued)

15. INVESTMENT MANAGEMENT AGREEMENT -- FEES, PERFORMANCE FEES AND TERMINATION (CONTINUED)

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, 2017 and 2016, the Investment Manager earned management fees from the Company of $63,211,761 and $63,143,490, respectively.

Performance Fee

Generally, the Investment Manager receives an annual performance fee 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). Such annual performance fee is defined as the "Variable Performance Fee" in the IMA. The Variable Performance Fee cannot 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 equalled $120 million in the aggregate at the time of the IPO. As of December 31, 2017 and December 31, 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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 crystallisation 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

Notes to Financial Statements (continued)

16. RELATED PARTY DISCLOSURES (continued)

related parties to the Investment Manager hold Management Shares, the rights of which are disclosed in Note 11.

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, any deferred compensation payable to the Investment Manager to the extent such deferred compensation is determined by reference to the performance of such entity, 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, 2017, the Company held an investment in PS VI as discussed in Note 3. As of December 31, 2017, the Company's capital balance in PS VI is $256,820,746 and represents an ownership in PS VI of 36.43%. The Company's investment in PS VI is included in investments in securities in the statement of financial position.

For the period from January 1, 2016 to November 10, 2016, the Company held an investment in PS V, International, Ltd. ("PS V"). PS V was an affiliated investment fund managed by the Investment Manager and its investment objective was to create significant capital appreciation by investing in stock of Air Products and Chemicals, Inc. ("Air Products"). On October 3, 2016, PS V distributed in-kind 314,158 common stock shares of Versum Materials, Inc., which was received in a spinoff from Air Products, with a fair value of $8,796,424 and unrealized appreciation of $3,067,994 to the Company. On November 10, 2016, by way of a compulsory redemption, PS V distributed in-kind 624,588 common stock shares of Air Products with a fair value of $85,705,965 and unrealized appreciation of $25,031,622 to the Company. These in-kind distributions represented the Company's proportionate amount of Air Products and Versum Materials, Inc. common stock shares. Additionally, the Company received $949,642 which represented the Company's proportionate amount of the net assets and liabilities of PS V. After the compulsory redemption, the Company no longer held an investment in PS V.

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

All realized and unrealized gains and losses from the investments in PS VI and PS V were reflected in the statement of comprehensive income for the years ended 2017 and 2016, respectively. See Note 7 for the discussion on the fair value measurement.

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. For the year ended December 31, 2016, the independent Directors' fees in relation to their services for the Company were $304,322 of which none were payable as of December 31, 2016.

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, 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. At December 31, 2016 the Company and its affiliates had beneficial ownership in excess of 10% of the outstanding common equity securities of Nomad Foods Limited, Platform Specialty Products Corporation, Restaurant Brands International Inc. and The Howard Hughes Corporation.

Notes to Financial Statements (continued)

16. RELATED PARTY DISCLOSURES (continued)

William A. Ackman is the chairman of the board of The Howard Hughes Corporation. Ali Namvar, a former member of PSCM's investment team, is a board member of Chipotle Mexican Grill, Inc. Ryan Israel, a member of PSCM's investment team, is a board member of Platform Specialty Products Corporation. Stephen Fraidin, vice chairman of PSCM, and William A. Ackman joined the board of Valeant Pharmaceuticals International, Inc. effective March 9, 2016 and March 21, 2016, respectively; neither stood for re-election and neither serve as board members effective as of May 2, 2017. Brian Welch, a member of PSCM's investment team, was a board member of Nomad Foods Limited until August 24, 2017.

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, the Special Voting Share and Class B Shares (as applicable for 2016 and 2017) over the weighted average number of Public Shares, the Special Voting Share and Class B Shares outstanding, respectively. In accordance with IFRS, the weighted average shares outstanding calculated for the Public Shares and the Special Voting Share were 238,676,380 and 1, respectively for the year ended December 31, 2017, and the weighted average shares outstanding calculated for the Public Shares and Class B Shares were 240,128,546 and 5,000,000,000, respectively, for the year ended December 31, 2016.

As discussed in Note 1, 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 provided accretion to the Public Shares of $0.08 which is reflected in EPS determination.

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, 2017 and December 31, 2016, based upon market value at that time, was $1,042,500,000 and $995,000,000, respectively. In accordance with IAS 39, the Bonds' carrying value as of December 31, 2017 and December 31, 2016, in the amount of $1,015,427,736 and $1,013,552,905, 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.

		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**

		2016
At December 31, 2015:	$	1,014,688,599
Write-off of Bond issue costs		22,940
Finance costs for the year		56,744,142
Bond coupon payment during the year		(57,902,776)
At December 31, 2016	**$**	**1,013,552,905**
Finance costs for the year:		
Bond interest expense	$	54,696,150
Amortization of Bond issue costs incurred as finance costs		2,047,992
Interest expense	**$**	**56,744,142**

Notes to Financial Statements (continued)

19. EVENTS AFTER THE REPORTING PERIOD

As discussed in the Chairman's statement, the Company has proposed to conduct a Company Tender for $300 million subject to applicable shareholder approvals which will be sought at the April 24, 2018 AGM. Following completion of the Company Tender and depending on market conditions and other considerations, the Company may decide to utilise the remaining amount of the share buyback authority to acquire Public Shares in the market.

The Investment Manager will reduce the management fees paid by the Pershing Square funds which incurred litigation expenses in connection with the settlement of the Allergan Stock Class Action and Derivative Class Action for eight consecutive quarters beginning with the management fee payable on April 1, 2018 by a total of $32.2 million. This amount accounts for the amount that incentive 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. The Company will be allocated $14.4 million of this reduction.

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. The Nomination Committee has proposed that the Board submit two candidates for shareholder approval as non-executive Directors of the Company at the upcoming AGM as discussed in the Corporate Governance Report.

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:		
14,263,243	Restaurant Brands International Inc.	$ 876,904,180	20.67%
140,873	Restaurant Brands International Limited Partnership	8,630,138	0.20
	Total Canada (cost $507,779,295)	885,534,318	20.87
	United States:		
	Business Services:		
3,832,106	Automatic Data Processing, Inc.	449,084,502	10.58
	Chemicals	171,224,993	4.04
	Consumer Products:		
7,200,229	Mondelez International, Inc.	308,169,801	7.26
	Other	195,665,657	4.61
	Financial Services	207,627,228	4.89
	Real Estate Development and Operating:		
2,067,490	The Howard Hughes Corporation	271,399,412	6.40
	Restaurant:		
1,329,537	Chipotle Mexican Grill, Inc.	384,276,079	9.06
	Total United States (cost $2,139,260,953)	1,987,447,672	46.84
	Total Common Stock (cost $2,647,040,248)	2,872,981,990	67.71
	Preferred Stock		
	United States:		
	Financial Services (cost $10,812,276)	11,012,767	0.26
	Total Equity Securities (cost $2,657,852,524)	2,883,994,757	67.97
	Investment in Affiliated Entity		
	United States:		
	Pershing Square VI International, L.P.:		
1,009,174	Automatic Data Processing, Inc., Common Stock	118,265,101	2.79
2,447,111	Automatic Data Processing, Inc., Equity Call Options Purchased, $55.50 - $87.93, 01/15/2021	136,147,787	3.21
	Other assets and liabilities	2,407,858	0.05
	Total United States (cost $255,600,000)	256,820,746	6.05
	Total Investment in Affiliated Entity (cost $225,600,000)	256,820,746	6.05
	Total Investments in Securities (cost $2,913,452,524)	$ 3,140,815,503	74.02%

(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, 2017, the net assets attributable to all shareholders was $4,242,954,525.

Supplemental U.S. GAAP Disclosures (continued)

(Stated in United States Dollars)

CONDENSED SCHEDULE OF INVESTMENTS (continued)

Shares	Description/Name	Fair Value	Percentage of Net Assets Attributable to all Shareholders[(1)]
	Derivative Contracts		
	Currency Call/Put Options Purchased		
	Various Currency Put Options, U.S. Dollar Call Options (cost $877,163)	$ 130,909	0.00%
	Equity Options Purchased		
	Cayman Islands:		
	Consumer Products (cost $127,372,260)	174,663,891	4.12
	United States:		
	Business Services:		
5,391,734	Automatic Data Processing, Inc., Call Option, $76.06, 06/23/2020	253,047,022	5.96
1,102,097	Automatic Data Processing, Inc., Call Option, $63.00, 01/15/2021	65,984,537	1.56
	Consumer Products:		
15,000,000	Mondelez International, Inc., Call Option, $30.00, 01/26/2018	192,532,245	4.54
	Total United States (cost $444,403,323)	511,563,804	12.06
	Total Equity Options Purchased (cost $571,775,583)	686,227,695	16.18
	Foreign Currency Forward Contracts		
	Currencies	(740,892)	(0.02)
	Index Options Purchased		
	United States:		
	Volatility Call Options (cost $1,258,120)	401,528	0.01
	Total Return Swap Contracts, long exposure		
	United States:		
	Consumer Products:		
7,006,417	Mondelez International, Inc.	(487,538)	(0.01)
	Financial Services	30,437,246	0.72
	Real Estate Development and Operating:		
3,467,149	The Howard Hughes Corporation	22,293,578	0.52
	Total Return Swap Contracts, long exposure	52,243,286	1.23
	Total Derivative Contracts (cost $573,910,866)	$ 738,262,526	17.40%

(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, 2017, the net assets attributable to all shareholders was $4,242,954,525.

Supplemental U.S. GAAP Disclosures (continued)

FINANCIAL HIGHLIGHTS

For the year ended 2017	Public Shares
Per share operating performance	
Beginning net asset value at January 1, 2017	$ 18.14
Change in net assets resulting from operations:	
Net investment loss	(0.61)
Net loss from investments and derivatives	(0.20)
Accretion from share buyback	0.08
Net change in net assets resulting from operations	(0.73)
Ending net asset value at December 31, 2017	$ 17.41
Total return prior to performance fees	(4.01)%
Performance fees	0.00
Total return after performance fees	(4.01)%
Ratios to average net assets	
Expenses before performance fees	4.59%
Performance fees	0.00
Expenses after performance fees	4.59%
Net investment income/(loss)	(3.43)%

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.

   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, 2017 is shown below.

Gross method:	$6,221,887,234
Commitment method:	$7,629,814,773

   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 2017[(1)]	Fixed Remuneration	Variable Remuneration	Total	Number of Beneficiaries
Total remuneration paid to the entire staff of PSCM	$ 96,133,692	$ 3,395,000	$ 99,528,692	77
Total remuneration of those staff of PSCM who are fully or partly involved in the activities of the Company	$ 90,303,606	$ 1,940,000	$ 92,243,606	39
The proportion of the total remuneration of the staff of PSCM attributable to the Company[(2)]	93.94%	57.14%	92.68%	39 out of 77
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	$ 80,778,269	$ 850,000	$ 81,628,269	16

(1) does not include certain remuneration paid in 2017 by Pershing Square International, Ltd. in respect of deferred incentive fees earned by PSCM between fiscal years 2005 and 2008.

(2) i.e., the proportion of the total remuneration of the staff of PSCM who are fully or partly involved in the activities of 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, 2017 is accurate and complete.

/s/ Michael Gonnella

By: Michael Gonnella
Chief Financial Officer

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

Pershing Square Holdings, Ltd.
Commodity Pool