PERSHING SQUARE

PERSHING SQUARE CAPITAL MANAGEMENT, L.P.

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Dear Pershing Square Investor:

The Pershing Square funds' performance trailed the major market indexes for the third quarter of 2011 and year to date, but have continued to outperform the market since inception as set forth below:[1]

	For the Quarter July 1 - September 30	Year to Date January 1 - September 30	Since Inception
Pershing Square, L.P.			01/01/04 - 09/30/11
Gross Return	-16.0%	-14.6%	523.4%
Net of All Fees	-16.2%	-15.6%	299.7%
Pershing Square II, L.P.			01/01/05 - 09/30/11
Gross Return	-16.1%	-14.9%	334.7%
Net of All Fees	-16.4%	-15.9%	200.0%
Pershing Square International, Ltd.			01/01/05 - 09/30/11
Gross Return	-15.3%	-14.8%	267.0%
Net of All Fees	-15.6%	-15.8%	160.2%
Indexes (including dividend reinvestment)			01/01/04 - 09/30/11
S&P 500 Index	-13.9%	-8.7%	19.0%
NASDAQ Composite Index	-12.7%	-8.3%	28.7%
Russell 1000 Index	-14.7%	-9.2%	22.3%
Dow Jones Industrial Average	-11.5%	-3.9%	27.1%

Update

In last quarter's letter, I explained that recent market volatility had created the opportunity for us to increase our exposure to existing and new investments at attractive prices. As of the August 17th letter, we had invested $600 million in these existing and new investments. Since then we have invested an additional $1.6 billion of capital in existing and new commitments including a large stake in Canadian Pacific Railway Ltd., which we discuss below.

Stock price appreciation since the time of these investments has contributed to a recovery in the market value of the funds by approximately 11% since the end of the quarter. As the largest investor in the funds on an absolute and percentage-of-net-worth basis, I "feel" these changes in market value more than most. This volatility does not concern me,

[1] Past performance is not necessarily indicative of future results. Please see the additional disclaimers and notes to performance results at the end of this letter.

however, for we focus our attention on the value and business progress of the companies we own rather than their daily market quotations. Because we manage an unleveraged, and often negatively leveraged portfolio, we have the luxury of largely ignoring short-term market movements in our holdings. Investors who operate with margin leverage must, in contrast, be highly sensitive to short-term, market price movements.

Based on fundamental business measures, our holdings have made significant progress since the beginning of the year, while the funds' year-to-date performance remains negative. As a result, the gap between the intrinsic value of our holdings and their quoted prices has widened significantly, thereby reducing risk and increasing the potential for profits in the portfolio. To take advantage of this opportunity, we have increased our invested exposure. As of this date, we are approximately 98% invested (less if one excludes the approximate 5% of capital in the Justice Holdings Ltd. cash shell).

Since inception, our average cash position has been approximately 20% of capital, although our cash balance has varied significantly. Our invested exposure does not reflect our expectations of short-term movements in the overall market, but rather is a function of the relative opportunity set in the current portfolio and the timing of new investments and realizations.

Our greater long equity exposure means that we are likely to have greater daily correlation with short-term moves in the market than if we had less exposure. Over longer periods, we expect our portfolio to continue its high degree of divergence from overall stock market performance because of the high degree of concentration in our holdings and the event-driven nature of most of our investments.

Many investors have dramatically reduced their equity exposures because of a belief that the world is more uncertain now with continued struggles in the Eurozone and a political stalemate in the United States. Putting aside whether the current amount of macro uncertainty is greater or less than that of other periods in recent and long-term investment history, we have not adopted this approach because it is inconsistent with our investment strategy.

While a more positive macro environment will increase the value of our holdings, we expect to generate high long-term rates of return from our existing holdings even without a substantial improvement in the economy. I have come to think of our investment approach as akin to a form of long-term arbitrage, where we invest and then work with our portfolio companies to cause the spread between our purchase price and intrinsic value to narrow. In some cases, in addition to unlocking existing value, we can assist a company in increasing its long-term intrinsic value by bringing in new management, adopting a change in strategy, modifying its structure and approach to allocating capital, by selling or spinning off non-core assets, through cost control and with other approaches.

Our ability to cause the price-value spread to narrow is, in most cases, unrelated to macro events, and has improved significantly over the last eight years. It is largely a function of Pershing Square's growing influence in the capital markets, our experience with previous investments, and specific circumstances with each of our holdings.

Portfolio Update

JCPenney (JCP)

JCPenney is now our largest investment. In August, we negotiated a partial waiver of the company's poison pill, allowing us to increase our economic exposure by an additional 7.5% of the company at a price of $26, slightly above our initial average cost, and well below the stock's recent high of approximately $41 in May of this year. We now own a 26.1% economic stake in the company, representing approximately 18% of our capital. The size of the position reflects our confidence in the future prospects of this investment, the margin of safety offered by the current valuation and the company's robust balance sheet and cash flow generation.

While we viewed our initial stake in the company last year as an opportunistic purchase, the ability for us to add to our position at a similar price per share one year later became even more compelling with the new senior management team in place.

A number of you have questioned whether our investment in JCP and our strategy for unlocking value should be compared with Sears. While many shopping malls contain both a JCP and Sears store and they are both department stores, the analogies largely stop there. Sears strategy over the last seven years appears tantamount to that of a liquidation. The company has starved the store base from needed investments and used the resulting cash flows for share buybacks at prices considerably above current market levels. Sears has had enormous turnover in the executive suite with the company's recent CEO coming from the telecommunication industry with no retail industry expertise.

By comparison, our approach to effectuating change at JCP has principally been to identify and recruit the best retail CEO in the industry to run the company. While asset monetization and capital allocation may make a minor contribution to our investment in JCP, they are largely a sideshow to the fundamental transformation in the business that we expect will occur under an extremely talented and experienced new senior management team.

While the logic for our approach to overseeing this investment is self-evident in our view, the ancillary benefits are also important. Namely, while it required time and energy to identify and recruit the right executive to run the company, now that he is in place, the amount of Pershing Square time and energy required going forward is greatly diminished, freeing up time for our core responsibilities–the identification and management of other investments.

I have had the opportunity to spend time with Ron Johnson over the last nine months as he finished his career at Apple and began planning for his leadership role at JCP. Based on this experience and my assessment of his talents, creativity, and relevant expertise, I expect to look back on the decision by the company to hire Ron, and our role in identifying and recruiting him, as one of the most significant contributions that we have ever made to any company over the life of our firm.

While Ron made a tremendous contribution to Apple's success as the company and its stock price resurged from a near disappearance in January 2000 when he joined, he served largely in the shadow of Steve Jobs. The investment community will get to know Ron and the company's strategy at an analyst day which will be held in New York on January 25th. You will have the opportunity to meet him as well, as he will speak at our investor dinner on January 26th.

One of the benefits of hiring a superstar CEO is the quality of the talent he can recruit. Ron recently hired Michael Francis to be President of JCP, a former colleague and a 22-year veteran of Target who was likely to be Target's next CEO. Michael is considered by many in the retail community to be the best marketer in the business. For the last 10 years, Michael ran Target's marketing and arranged deals with high-end designers who developed lower-cost lines for Target–the company's recent Missoni deal is such an example–and drove the brand's reputation as a high quality, high-fashion discount retailer.

Last week, Ron announced that Michael Kramer, CEO of the Kellwood Company, a private-equity-backed manufacturer and marketer of apparel and soft goods, would become COO of JCP. Before Kellwood, Michael was Executive VP and CFO of Abercrombie & Fitch. Prior to Abercrombie, Michael worked with Ron at Apple as the CFO of Apple Retail.

Daniel Walker recently was hired as Chief Talent Officer. Dan began his career at Federated Department Stores and later joined the GAP under Mickey Drexler where he worked to recruit talent during the GAP's period of rapid growth and profitability. Afterwards, he was hired by Steve Jobs to serve in a similar capacity recruiting the talent that launched the iPod, iPhone, iPad, Apple and App stores. Dan is the best in his business and we expect he will make an enormous contribution to the transformation of JCP.

JCP will not be transformed overnight, although you should expect to see new marketing and merchandise presentation as well as organizational, structural, and cost control changes over the next year with the bulk of product changes beginning in 2013.

We expect our investment in JCP to be a long-term holding for the funds, and we have high expectations. We don't buy 26% stakes and join boards of directors unless we believe an investment has enormous potential.

Fortune Brands

On October 3rd, Fortune Brands completed the spin-off of its building products business, Fortune Brands Home and Security ("FBHS"), and concurrently changed its name to Beam. We are the largest shareholders of both companies. Presently, Beam trades at approximately $50 per share and FBHS trades at about $15 per share for a total value of roughly $65 per share. In August, prior to the spinoff, we bought an additional 3.6 million shares of Fortune Brands at approximately $53 per share.

Beam (BEAM)
Beam is a highly attractive business. With a great stable of global spirits brands, significant pricing power, strong barriers to entry, high margins, and attractive growth both domestically and internationally, Beam is now the world's only pure-play, publicly traded global spirits company that is not family controlled or influenced–in other words, it is a very scarce asset.

As a standalone business, Beam now has many strategic alternatives available to the company, including a sale of the business, a merger with another spirits company, and the acquisition of other brands. We believe the spirits industry will see significant consolidation over the next several years, and Beam's leading global positions in bourbon and tequila could entice several bidders or merger partners in the future. In the meantime, we are excited to be owners of this high quality, standalone business, particularly given its significant growth opportunity in international markets and through brand extensions and product innovations in the U.S..

Fortune Brands Home and Security (FBHS)
FBHS is a leading North American residential building products company which manufactures faucets, cabinets, windows, doors and security products. On October 18th, we gave a presentation entitled "A Homespun Fortune" at the Value Investing Congress which described our investment thesis for FBHS, a copy of which we previously distributed to you by email. In summary, we believe FBHS is both a secular and cyclical winner, taking share from its weaker, financially leveraged competitors today. It is well-positioned for a housing market recovery in the future. Given the company's strong marketplace position, limited financial leverage, and its experienced management team, we believe investing in FBHS is a low-risk way to profit from an eventual housing market recovery.

Family Dollar (FDO)
In August, Family Dollar completed its fiscal year 2011, ending a year of strong same-store sales growth and modest margin expansion. Despite some business progress, FDO continues to trail its primary competitor, Dollar General (DG), by a wide margin. This is reflected in the valuation the market assigns to the two companies. Despite similar unit size, business models, and historical profitability, DG's enterprise value per unit today is $1.70 million compared to $1.04 million at FDO, a 63% premium.

On September 29th, Family Dollar announced that Edward Garden, the Chief Investment Officer of Trian, is joining FDO's board of directors. Contemporaneous with this announcement, Trian withdrew its $55 to $60 offer to acquire the company, an offer we and the company deemed inadequate. We hold Ed and the Trian team in high regard and are confident that Ed will serve the interests of shareholders well. Ed's appointment gives us the benefit of an effective activist shareholder on the board, while freeing our time for other commitments.

General Growth Properties (GGP)
GGP currently trades at nearly its largest discount to Simon Property Group since emerging from bankruptcy. Pro forma for the spin-off of Rouse Properties, GGP trades at a 6.7% cap rate, a 110 basis point premium to Simon. On an adjusted funds from

operations (AFFO) multiple, which is the REIT equivalent for cash earnings per share, GGP, excluding the Rouse spinoff, trades at less than 16 times 2012e AFFO, versus Simon which trades at more 20 times AFFO.

Given that pro forma GGP, which excludes the Rouse spinoff, will have nearly $500 of sales per square foot, 3% to 4% same-store NOI growth, and occupancy similar to that of Simon, we believe this discount is far too wide to be warranted. To put GGP's upside into perspective, if GGP ex-Rouse traded at Simon's AFFO multiple, and assuming $0.50 to $0.70 cents per share of value for Rouse, GGP should trade at $17 per share. If GGP traded at Simon's cap rate, the stock would be near $19 per share. This compares to GGP's current share price of $13.39.

We believe there are several reasons why GGP trades where it does. First and foremost, the stock has underperformed since GGP reported its second quarter results. Simply looking at GGP's operating supplement, an investor would assume GGP's comparable NOI growth declined by 3% in the second quarter. This compares unfavorably to GGP's peer group, Simon, Taubman, and Macerich, each of which reported positive 3% to 5% comparable NOI growth.

In fact, GGP's comparable NOI growth was flat in the second quarter. To determine this, however, an investor would have to make several adjustments to GGP's reported second quarter NOI for dispositions, non-cash international audit adjustments, and several other one-off non-recurring items. Unfortunately, the detail for these adjustments was not given in GGP's operating supplement or 10-Q, and the company failed to adequately clarify this issue on its quarterly conference call.

Given that GGP is undergoing significant changes, and will continue to undergo significant changes with the spin-off of Rouse Properties, we believe investors are having a difficult time modeling what the pro forma GGP entity will look like. This is evident in the sell-side research estimates for pro forma GGP. As a result, analysts and investors are being forced to annualize GGP's quarterly results to establish run-rate financials, which is a difficult task given the non-recurring items that were included in the second quarter, coupled with the company's ongoing disposition program. The fact that management has yet to provide future guidance only exacerbates this issue. On a positive note, there are several reasons to believe that GGP will narrow its spread with Simon going forward.

First, cash leasing spreads have turned positive. Since January 1st this year, the cash spread on GGP's renewal leases is positive 17%; that is, renewal leases are at rents 17% higher than expiring leases. Under previous management during its bankruptcy, GGP was still signing renewal leases with negative cash spreads of 8%. Given the inherent lag associated with new leases of approximately six months, we expect these more favorable leases to begin to affect GGP's cash flows in the third quarter, and to have a full impact beginning over the next 12 months.

Second, as of the second quarter, GGP's portfolio was 92.5% leased, but only 89.3% occupied, meaning that GGP has nearly two million square feet of space that will begin paying rent over the next six months. At $55 per square foot, this represents an incremental $100 million of effectively guaranteed revenue growth.

Third, GGP continues to refinance its secured debt in the market at lower interest rates and with longer-term maturities, freeing up capital for investment and increasing AFFO.

Finally, we believe that GGP's multiple should improve once the Rouse spin-off is completed, and after the company issues guidance for the pro forma GGP entity. Though we believe this multiple re-rating will happen over time, a return to positive comparable NOI growth and the establishment of management's credibility will help to speed the process.

Citigroup
As the macro environment has weakened and worries over the fiscal situation in Europe have increased, the entire large-cap financial sector, including Citi, has experienced material share price declines. During this period, Citi's business performance has been solid and its valuation has become more compelling. Citi trades at 60% of tangible book value, at about eight times the depressed level of current earnings per share of its ongoing CitiCorp core business, and about three times our estimate of normalized earnings per share, after giving credit for the value of excess capital, tax, and other assets.

While there is a meaningful amount of uncertainty concerning the Eurozone and European bank solvency, we believe the risks to Citi from potential negative outcomes are more than fully reflected in the current stock price in light of Citi's minimal exposure to troubled European institutions. Citi's net funded exposure–the amount of loans and the value of its securities and derivatives adjusted for offsetting collateral and hedges to the sovereign entities of Portugal, Italy, Ireland, Greece and Spain–is less than $2 billion. In addition, Citi's net funded exposure to France and Belgium is less than $100 million. In aggregate, these amounts comprise less than 2% of Citi's $145 billion of tangible book value. At the current valuation levels, a resolution to the European crisis should be a catalyst for material price appreciation.

Citi third quarter earnings were in line with our expectations. The bank continues to generate solid growth in the international consumer banking business and its capital-light transaction services business, while the tough macro environment has pressured investment banking results. Citi is beginning to show revenue growth in excess of expense growth in its Asian consumer bank, and expects operating leverage in other business units over the coming quarters. In addition, credit costs continue to improve bolstering the bank's already strong capital levels. Citi remains on-track to begin returning capital to shareholders in 2012, which we expect will be a catalyst for share price appreciation.

Canadian Pacific Railway Ltd. (CP)
On October 28th we filed a 13D disclosing our ownership of 20,659,504 shares (12.2%) of Canadian Pacific. CP is one of six Class I, i.e., large North American railroads. On nearly every operating measure, CP underperforms its closest competitor Canadian National Railway Company as well as the other North American railroads. We believe the discrepancy in performance at CP is generally not attributable to structural factors and

can largely be resolved. We look forward to providing more information about this investment as soon as it is appropriate.

Administrative Matters

If you would like to receive the funds' mid-month performance updates, please send an email to IR@persq.com. We believe that you should judge our performance over a number of years rather than monthly or bimonthly, but we make the data available to those who would like it.

Given the increase in the volume of requests for account transfers, we wish to remind you of the five-day notice period required for us to complete the relevant paperwork. Please note the December 26th cut-off date for December 31, 2011 transfers.

Tax estimates for our domestic partnerships were distributed last week and we plan to send an updated estimate in January. Please let us know if you did not receive an estimate from our administrator. Please note that the partnerships expect to be treated as an Investor in securities for the 2011 tax year, which will limit the deductibility of certain investment expenses for U.S. taxpayers.

Organizational Update

In September, Brian Welch joined our investment team from The Blackstone Group where he spent three years as a private equity analyst. Brian earned his B.S. at the University of Pennsylvania, majoring in Economics, with a double concentration in Finance and Real Estate. He was graduated Summa Cum Laude and was elected to the Beta Gamma Sigma honor society.

Save the Date

We will hold our Annual Investor Dinner and Operational Due Diligence meeting on January 26, 2012. You should already have received invitations to these events. Please make sure to RSVP as soon as possible. Also, please mark your calendar for our next quarterly conference call which will be on April 17, 2012 at 11AM EST.

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

Sincerely,

William A. Ackman

Additional Disclaimers and Notes to Performance Results

The performance results shown on the first page of this letter are presented on a gross and net-of-fees basis and reflect the deduction of, among other things: management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any. Net performance includes the reinvestment of all dividends, interest, and capital gains; it assumes an investor that has been in the funds since their respective inception dates and participated in any "new issues." Depending on the timing of a specific investment and participation in "new issues," net performance for an individual investor may vary from the net performance as stated herein. Performance data for 2011 is estimated and unaudited.

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

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

Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. This letter is confidential and may not be distributed without the express written consent of Pershing Square Capital Management, L.P. and does not constitute a recommendation, an offer to sell or a solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential private offering memorandum.

This letter contains information and analyses relating to some of the Pershing Square funds' positions during the period reflected on the first page. 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 letter 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.