PERSHING SQUARE CAPITAL MANAGEMENT, L.P.

888 SEVENTH AVENUE, 42ND FLOOR
NEW YORK, NY 10019
P: 212-813-3700 F: 212-286-1133

September 18, 2009

Dear Pershing Square Investor:

The Pershing Square funds underperformed most major market indexes for the second quarter of 2009 while substantially outperforming most major market indexes for the year to date and since inception as set forth below:[1]

	For the Quarter April 1 - June 30	Year to Date January 1 - June 30	Since Inception
Pershing Square, L.P.			01/01/04 - 06/30/09
Gross Return	7.5%	11.3%	291.8%
Net of All Fees	7.2%	10.5%	187.0%
Pershing Square II, L.P.			01/01/05 - 06/30/09
Gross Return	7.0%	9.6%	169.7%
Net of All Fees	6.6%	8.8%	113.4%
Pershing Square International, Ltd.			01/01/05 - 06/30/09
Gross Return	8.6%	13.1%	151.5%
Net of All Fees	8.2%	12.3%	102.0%
Indexes (including dividend reinvestment)			01/01/04 - 06/30/09
S&P 500 Index	15.9%	3.2%	-7.6%
NASDAQ Composite Index	20.3%	17.0%	-4.4%
Russell 1000 Index	16.5%	4.4%	-5.8%
Dow Jones Industrial Average	12.0%	-2.0%	-7.4%

Based on the timing of our most recent quarterly letters, we have developed a deserved reputation for tardiness in our quarterly communications. The previous sentence should have been written with an "I" rather than "We" as **I** am the cause for these late communications. The operations, finance, and IR teams deserve full credit for the timely distribution of performance and capital account statements, which has given me cover for somewhat tardy quarterly letters. Unlike every other function at Pershing Square, whether it is investment analysis, accounting/ finance, IR, technology, legal/compliance, or administration – all of which are team-driven – I insist on personally writing our quarterly letters. Some firms outsource this important function, but as the portfolio manager, I believe that you deserve to hear from me directly with no filter, at least four times a year. Three of these communications historically have been quarterly letters with the fourth being our annual dinner presentation.

[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.

The challenge with this approach is that I am always willing to defer the writing of the quarterly letter in favor of spending the time required for an existing investment in the portfolio or for the analysis of a promising new investment. I also don't like to write unless I have something significant to say and/or there have been material developments in the portfolio that we are prepared to share in light of competitive or other considerations. As a result, these letters occasionally get delayed, particularly, one might expect, in a year as interesting as this one. That said, I am extremely sensitive to making sure that any material negative news is delivered promptly.

What you can glean from these considerations is that in the future if your letter has not yet arrived, in all likelihood it means that we are making progress with existing investments and/or have identified a potential new situation(s) that is consuming our time and investment resources. The good news is that the foregoing description reflects the current state of affairs. We like what we own and we are carefully studying a number of potential opportunities that have extraordinary potential.

Portfolio Update

During the quarter, most of our portfolio companies made significant operating and business progress that contributed to stock price appreciation.

Target Corporation

In last quarter's letter, we expressed our belief that the proxy contest with Target had (1) catalyzed management to seriously consider exiting the credit and funding risk associated with its credit card operation, (2) highlighted the undervaluation of the company, and (3) would improve the company's governance and board composition, and (4) make Target a more open and responsive company. During the proxy contest which began on March 16th, Target stock rose by more than 50%. In recent weeks, the stock has continued to appreciate, driven by better-than-expected second quarter operating performance and, most recently, by the company's announcement that it would seek to declassify its staggered board. We expect that Target will continue to deliver on the promises it made during the proxy contest which will inure to the benefit of long-term shareholders.

EMC Corporation

Our second largest investment is our stake in EMC. We invested in EMC because of the high quality nature of the company's two principal business lines – the Information Infrastructure and Virtual Infrastructure businesses – and our ability to acquire a position at a substantial discount to our estimate of fair value.

Each of EMC's Information Infrastructure's three segments – Information Storage, Content Management and Archiving, and RSA Information Security – leads the market in which it competes. Because of the extremely high compound growth rate in data globally – estimated by industry experts at 60+% per annum; (think saved YouTube videos and regulatory requirements to preserve documents and data), we believe that demand for data storage over the long-term is

largely insensitive to the economy. As a result, we expect that EMC's dominant market position in Information Infrastructure will continue to allow it to generate growing, and predictable free cash flow from new product sales, recurring maintenance and warranty revenues, and the sale of consumables. The company also benefits because of its substantial operating leverage from economies of scale, large barriers to entry, and economies of scope, where the breadth of the company's product offering is a significant competitive advantage.

EMC's customers are diverse by industry and geography and enjoy efficiencies from concentrating their infrastructure spending on a small number of market leading vendors such as EMC. Its customers are also highly risk averse, as data storage is a critically important function for regulatory and competitive reasons, and customers face significant costs if they switch to an alternative vendor.

Information Infrastructure enjoys the benefits of both the inherent operating leverage of the software business with the high switching costs of the hardware business. Because EMC's Information Infrastructure hardware is built from the assembly of components manufactured by multiple, highly competitive, third-party suppliers, EMC does not suffer the inventory risk, capital intensity, and supplier negotiating power of traditional hardware businesses.

EMC's off-balance sheet assets include a large base of satisfied customers that are receptive to additional offerings from EMC, and a sales force that is considered by many to be the best in the information technology industry. Combined, these assets facilitate EMC's expansion into adjacent markets.

The rapid adoption of virtualization and cloud computing led by EMC's 84% owned, publicly traded VMware subsidiary – we are rapidly moving to a world in which you will simply rent your computing power and storage from third parties and you will no longer have that noisy, heat-generating, power-consuming box under your desk – increases the demand for EMC's offerings, while improving EMC's opportunity to differentiate its offerings and maintain its pricing.

VMware is driving a transformation of the information technology industry, and in that process we expect it will capture large profits over time. We believe that the VMware can ultimately enjoy a market position and economics similar to that enjoyed by Microsoft's Windows x86 server and desktop operating system.

We attribute EMC's substantial stock price appreciation in recent weeks to the market's recognition of a recently completed strategic acquisition, better-than-expected second quarter operating performance, and the continued business progress of VMware.

We believe that EMC is undervalued on a sum-of-the-parts basis, and that the value of its two core operating segments will continue to increase at an attractive rate.

General Growth Properties Inc.

On August 11th, Judge Gropper, the judge overseeing GGP's bankruptcy, denied various motions by secured creditors to dismiss the individual bankruptcy cases of the GGP property-owning

subsidiaries (the SPEs). The SPEs filed for bankruptcy along with GGP's parent company so that GGP could reorganize the entire enterprise in an efficient and cost effective manner. Numerous secured creditors objected, arguing that the SPE bankruptcies were not in good faith as the SPEs were supposed to be "bankruptcy remote," and because their properties were performing strongly, generating substantial cash flow and covering debt service with no evidence of financial distress.

GGP argued that the directors of the SPEs had acted in good faith in putting the SPEs in bankruptcy. They did so because they could not be confident, in light of the current state of the real estate capital markets, that the SPEs could refinance their debt maturities as they come due over the next several years, creating the risk of a future GGP bankruptcy.

Ruling in favor of GGP, Judge Gropper dismissed the creditors' motions deciding that the directors of each of the SPEs had acted in good faith. In his decision, the judge encouraged GGP and its secured creditors to promptly negotiate an extension of maturities. The upshot of the judge's decision is that GGP should be able to successfully reorganize by extending the maturities of its short-term debt.

Once maturity extensions of GGP's mortgage debt are achieved, either consensually or through litigation and court resolution, the company will work with its advisors to determine an appropriate capital structure for the newly reorganized company. During the process, (1) the enterprise value of the company will be determined by the court or by negotiation among the unsecured creditors and equity holders, (2) the proportion of the company owned by current common holders and unsecured creditors will be finalized, and (3) the company will thereafter emerge from bankruptcy. Under the bankruptcy code, GGP's unsecured creditors are entitled to receive no more than the face amount of their claims plus accrued interest (although accrued interest is often waived as part of a negotiation when unsecured creditors achieve par recoveries). The balance of GGP's value should inure to the benefit of the company's shareholders. As a result, the company's valuation will likely play an important role in determining recoveries for shareholders.

We believe the best comparable for GGP is Simon Properties, the largest U.S. shopping mall REIT. While Simon is comparable to GGP in many ways, we believe that Simon stock may currently trade at a discount to its intrinsic value because of the overhang of potential future equity issuances that may be required to refund maturing debt obligations. At today's stock price of approximately $74, Simon trades a cap rate of approximately 7% using trailing 12-month net operating income, a widely used measure of real estate value. If one were to apply Simon's current cap rate to GGP, it would give the company an enterprise value of $40 billion, implying a stock price of $40 for GGP.

GGP stock has risen more than12-fold since we first began acquiring our position at 34 cents per share on November 13th, and the unsecured debt we own has increased in value more than three times over the same period. Over the same period, the risks to GGP bondholders and shareholders have been reduced substantially, in our opinion, as the bankruptcy has progressed and as the economy has shown signs that it may be exiting the recession. Despite this progress, GGP is a highly leveraged company and there continues to be substantial uncertainty about the potential outcomes for GGP security holders.

New Investments

Automatic Data Processing, Inc.
ADP is a high-quality business that trades at a meaningful discount to its intrinsic value due to the near-term effects of the economic downturn. We view ADP as three separate businesses: (1) a payroll processor that has been impacted by rising unemployment and a spike in the corporate default rate, (2) a client fund account that holds money on behalf of its customers ("float") which has shown declining earnings as low interest rates and recent wage deflation reduce float balances, and (3) a dealer services business that has been impacted by the unprecedented turmoil facing the U.S. automotive industry. As the U.S. economy stabilizes, we believe the headwinds facing ADP will become tailwinds. Given the operating leverage inherent in ADP's business model, ADP's earnings should accelerate as it approaches its normalized earnings potential.

ADP's business has numerous attractive qualities: (1) given the low capital outlays required to run the business, it generates cash flow in excess of reported earnings, (2) its dominant market share and global franchise afford it with meaningful pricing power, (3) it possesses one of the few truly Triple-A balance sheets in the world, (4) the company has additional avenues for growth as it has yet to fully penetrate the global payroll/tax market and has a valuable suite of "beyond payroll" product offerings that it can cross-sell into its existing client base, and (5) it will benefit from higher interest and tax rates (higher taxes lead to greater float balances).

We also respect management's focus on shareholder value. Over the last four years, ADP has spent about $5 billion repurchasing more than 20% of its outstanding shares and paid more than $2 billion in dividends. The combination of a high quality dominant business, shareholder friendly management, and an attractive price in our experience typically leads to a good investment outcome.

McDonald's Corporation
We sold our previously held stake in McDonald's in the fourth quarter of 2007 at approximately $56 per share. Recently, we repurchased a stake in McDonald's which represents approximately 10% of the funds' capital at a slightly lower price. Since we sold our initial stake in the company approximately two years ago, McDonald's has made material financial progress: increasing after-tax earnings (for the prior 12 months) by approximately 16% from $3.6bn to $4.2bn, reducing common shares outstanding by 5% from 1.15bn to 1.09bn, and increasing its dividend by 33%. From an operating point of view the company has also made significant progress over this period: global same store sales have increased by more than 10%, system-wide sales have grown by more than 10%, and the percentage of franchised restaurants has increased over 200 bps to 80%.

McDonald's makes money in principally two ways: first, by collecting an approximate 14%+ share of its franchisees' revenues for the use of McDonald's brand, a business we coined "Brand McDonald's," a label McDonald's has since adopted, and second, by generating operating profits from a portfolio of company-operated stores.

When we originally purchased McDonald's stock in mid-2005, we encouraged the company to sell or spinoff a substantial portion of its company-operated store units, which we believed could be managed more effectively by the company's franchisees leading to higher same-store sales, happier franchisee relations, and a growing stream of higher quality earnings for McDonald's. We also argued that McDonald's could pay larger dividends and repurchase a greater number of its shares if a greater proportion of its earnings came from its higher quality brand royalty business rather than from the more volatile and capital-intensive business of operating company-owned stores.

McDonald's brand royalty business is one of the greatest businesses in the world because it generates an annuity-like revenue stream which can grow without the requirement for meaningful investment of capital from the company. Because the company's revenue share comes from more than 32,000 different stores spread around the globe, it is an inherently stable, currency-hedged, inflation-protected stream of cash flow.

Despite its business quality and dominant global market position, McDonald's stock trades at only about 13 times multiple of 2010 earnings, a price which we believe does not adequately reflect the company's fair value.

The Dollar, Inflation, and Risk to One's Purchasing Power

In light of the large amount of credit creation, quantitative easing, and dollar printing that has recently taken place in the United States, it is reasonable to be concerned about the future buying power of the dollar and the prospect of higher interest rates that will be necessary to induce investors to purchase Treasury securities. Some investors have chosen to hedge these risks by buying gold. In that gold does not generate cash flow, it does not have any intrinsic value in our opinion. Thus, we have chosen to reduce the interest-rate risk and dollar weakness risk of our portfolio by owning high quality businesses that have pricing power due to market position and/or business model, and/or that earn their profits globally.

Shorts and CDS

We have identified substantially more long investment opportunities since the beginning of the year than short opportunities. This is largely due to the attractive stock market valuations during this period and the improving credit markets which have made CDS investments less attractive. Our CDS notional exposure peaked at 2.8 times our capital base in January 2007 when credit spreads were near all-time tight levels. We unwound a substantial amount of this exposure as these spreads widened dramatically, and even more over the course of this year. As a result, our CDS notional exposure has declined to about 36% of fund capital (at the end of August).

Many of the poorly capitalized businesses with bad business models, and aggressive or fraudulent financials on which we owned CDS imploded during the credit crisis. We exited these positions at large profits. We currently own a small portfolio of principally single-name CDS which represents disaster protection more so than investments on which we expect to profit. As CDS spreads have narrowed dramatically in recent months and as the risk-reward ratios for CDS purchasers have begun to get more attractive, we have renewed our efforts to identify situations in which we can profit from credit deterioration.

Our largest short position is a valuation-related hedge for our investment in GGP. As mentioned previously, GGP's valuation will be a critical factor in the determination of recoveries for equity holders. We have implemented this hedge to mitigate this potential risk.

We also continue to maintain a small short position in a real estate investment trust which trades at a high valuation despite the poor business prospects of its underlying tenants and assets.

Mistakes of Omission, Trading, and the Downside of Detailed Due Diligence

Despite our strong performance to date, this has been a challenging investment year in some respects, principally because of errors of omission. We have missed some opportunities or otherwise not acted with sufficient aggressiveness in acquiring certain new positions. The beauty of errors of omission is that they are largely undetectable by clients as long as they go unreported by managers. Because I believe that owning up to one's mistakes in a public fashion decreases the probability of those errors reoccurring, I do so here.

The principal misses this year have been positions that we initiated in late Q1 and early Q2 at prices we believed to be extraordinarily attractive – YUM Brands in the low to mid-$20s, various REITs, Saks Inc. at less than $3 per share, and one or two others which we failed to buy aggressively as prices rose quickly from the market bottom. Trading is largely an art and not a science, a discipline in which you can always look back and conclude that you could have done it better. That is one of the reasons why portfolio managers hire traders (it enables the portfolio manager to shift the blame to others) and why being a trader is such a treacherous job.

We seek investments in which there is a wide spread between price and value and then complete sufficient due diligence to obtain high conviction in our analysis. As a result, when we find something we would like to buy, once we have completed our work, our general approach is to buy as much of a particular security as we can without disturbing the price until we reach our targeted position size. In some cases, securities decline as we buy them (the ideal situation), in others they stay at approximately the same price, or alternatively they rise in price (the problematic case).

One of the reasons why we prefer liquid securities to illiquid situations is because of the greater probability that we will be able to acquire a position at or around the price that our analysis was based upon. Unless we believe that at the time of purchase, it is a once-in-a-lifetime buying opportunity (think GGP), we typically leave some room to increase our position if the price/value relationship becomes even more favorable in the future. Unlike many investors, we do not take token positions as we begin work and then add to positions as we build conviction. We are either all-in (while often retaining a "re-buy" ticket in our pocket), or we keep our chips in a large pile of U.S. Treasurys.

In the first half of this year, enormous market volatility created opportunistic, albeit temporary, buying opportunities in a large number of companies. We took advantage of some of these opportunities, but missed many more. Part of our failure to execute on these situations is the nature of our approach. There were many potential opportunities in which we could have comfortably invested 1% of our capital based on the limited amount of due diligence we had

completed in the time available, but we have no interest in building an overly diversified portfolio about which we have limited understanding, even though this approach would have worked well at the recent market bottom. We have always believed in managing a concentrated, high-conviction portfolio that requires detailed, in-depth, and often time-consuming analysis. The benefit of our approach, however, is that once we find an investment that is extraordinarily attractive, we can confidently invest a meaningful percentage of our capital. The downside is that if security prices are rising quickly, we will miss some opportunities.

I focus on hidden mistakes in this letter because we have had few unforced errors this year. Our principal mistake has been selling certain investments too soon, although we are comforted by the fact that a substantial portion of the funds realized from selling these positions were subsequently invested in what we believe to be more attractive situations.

Perhaps the best example of selling too soon is the sale of our substantial position in Cadbury PLC that we purchased originally in early 2007 and sold in the third and fourth quarters of last year. We exited Cadbury because we believed that the dramatic deterioration in the credit markets would significantly postpone the likelihood of a sale of the business, thereby delaying the catalyst for potential value recognition. We underestimated the rapidity of the recovery of the credit markets and missed out on the opportunity for an attractive sale to the strategic buyer whom we had previously identified as the likely acquirer. We were wrong.

Operational Update

We seek to continually improve our back office infrastructure and processes. To that end, many of you have suggested improvements which we consider and ultimately implement if we are able to do so. For example, our finance, operations and technology teams have been hard at work implementing the Imagine System, a paperless risk management, trade execution and reporting system. Imagine is the core of the Straight Through Processing (STP) capability that we have recently implemented. STP allows us to achieve certain important objectives which include (1) the elimination of significant duplication and order entry risk by automating the flow of trade information for all types of securities from our trading desk to the back office, to our Prime Brokers and Fund Administrators, and to and from other parties, (2) the ability to monitor our portfolio and perform "what if" analyses in real time with current information, and (3) the implementation and maintenance of a robust trading-related compliance framework.

Recently, we engaged UBS Securities LLC as an additional principal prime broker and custodian. We made this decision after a nearly 18-month review process. The process, which was delayed by the challenges the industry faced in 2008, included an initial review of eight candidates and an in-depth comparison among three finalists. We ultimately selected UBS Securities, LLC which we believe will greatly complement our existing relationship with Goldman, Sachs & Co., which has been our principal prime broker up to now.

In order to further improve transparency, we worked with our administrator Morgan Stanley Fund Services ("MSFS") as a "beta client" to develop an asset verification report. All investors now receive "Stratum Investor Reporting" directly from MSFS on a monthly basis which independently confirms the assets and liabilities of the funds, provides price input confirmation,

counterparty identification and service provider identification, as well as SFAS 157 classifications.

The three SFAS classifications, I through III, are indicative of the degree of verifiable pricing information on the fund's assets. These are the same classifications used by publicly traded banks and other financial institutions to categorize their assets. Category I assets include publicly traded equities, options, REITs, closed-end funds, and short-term investments. Category II assets include CDS, over-the-counter options, bonds, convertibles, and certain other fixed-income investments, and Category III comprise privately traded instruments. As a general rule, the higher the number of the category, the less robust the pricing information.

Using Pershing Square International as an example, as of the July 31st month end, 90.6% of our assets were Level I, 7.4% were Level II, and 2% were Level III. The fact that 98% of our assets are Level I and II is reflective of our investment strategy which, for the most part, emphasizes mid- to large-cap publicly traded companies. The high degree of Level I and II assets in the portfolio makes valuation a simple exercise for the funds, and a reliable indication of the value of your interest in the funds.

Our Borders Group warrants and loan are considered Level III assets. We value these assets with the assistance of Houlihan Lokey valuation services. Because of the simple nature of these assets – the warrants are long-dated, low-strike warrants and the loan is a short-term secured loan which comes due in April of 2010 – these assets can be readily and accurately valued. They are also easily identified as they are disclosed in Borders Group SEC filings. We verify the values determined by Houlihan Lokey each month and we have historically agreed with their assessments.

We have also recently provided certain portfolio data to Measurisk which enables customers of Measurisk to obtain summary risk and exposure statistics about our portfolio. We decided to provide our portfolio information to Measurisk after careful due diligence and the negotiation of a robust confidentiality agreement. The information available to investors through the Measurisk platform does not include individual positions or geographic or industry information about our portfolio which we view to be proprietary. It does include aggregated position data of the Pershing Square funds similar to position data that other hedge funds provide to Measurisk and that relate to a particular investor's overall holdings in their portfolio hedge funds. The Measurisk data allows certain quantitatively oriented risk managers to run risk models.

Pershing Square does not endorse or otherwise recommend the reports generated by Measurisk. We also do not monitor or verify the contents or accuracy of these reports. If you wish to receive risk analytics about our portfolio through Measurisk, please contact them directly at sales@measurisk.com or 212-651-7930.

Organizational Update

Rob Unger joined our trading operation from SunTrust, Ramy Saad's previous employer. Rob has both extensive trading experience and considerable trading-related back office experience which have proven useful in our implementation of the Imagine system.

Steve Symonds joins us from Man Investments and previously John A. Levin & Co. where he served in a senior investor relations role. Steve will work closely with Doreen and the other members of our investor relations team on client relations and investor outreach. Because the capital stability of a hedge fund is a key long-term success factor, we believe that our investor relations function is a critical strategic asset of the firm to which I expect Steve will be an important contributor.

Please feel free to contact me or any member of the investor relations team if you have any further questions.

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 2009 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 an offer to sell or the 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.