



PERSHING SQUARE HOLDINGS /
CHIPOTLE MEXICAN GRILL

Chipotle Mexican Grill operates in the fast-casual dining segment, offering customers a range of all-natural Mexican-themed food, with a focus on burritos and tacos.

Founded in 1993 with a single restaurant, the brand rapidly expanded across the United States and today operates over 2,400 restaurants.

Pershing Square invested in Chipotle in September 2016 following a near-50% share price decline driven by an e-coli outbreak, with the rationale being that the opportune time to buy into a quality business is when temporary factors are depressing the share price.

6.5%

% of total assets less current liabilities

Source / Chipotle Mexican Grill

CONTRIBUTORS

PERSHING SQUARE HOLDINGS

Description Investment Company	Total return on position FY18 (local)² 15%
Weight¹ 6.5%	Total return on position FY18 (GBP) 18%
Discount -24.4%	Contribution (GBP)³ 1.19%
% of investee company 1.3%	ROI since date of initial purchase⁴ 3%



Pershing Square Holdings ('PSH') generated an 18% share price total return, boosting British Empire's NAV by 1.19%. The 24% discount ended the year where it started, although it swung in a wide range between 16% to 26%, and the NAV rose by 18% driven by strong performances from Automatic Data Processing (24% of NAV), Chipotle Mexican Grill (14%) and Lowe's Companies (13%).

PSH is a London- and Euronext-listed closed-end fund managed by Pershing Square Capital Management ('PSCM'), the investment firm run by high-profile activist investor Bill Ackman. We first invested in PSH in June 2017 and have since built a position amounting to a 3% effective stake in the company at an average discount of 18%.

The opportunity to invest in PSH at a discount first arose following the company's catastrophic and very public investment in Valeant, a Canadian-listed pharmaceuticals business whose share price declined 97% from peak to trough between August 2015 and April 2017. Valeant at one point accounted for 30% of PSH's NAV, and total losses from the position are estimated at US\$4bn across Pershing's funds. This episode badly tarnished Bill Ackman and his firm's reputation, and the discount on PSH widened as investors became disillusioned.

While the reaction to the highly disappointing Valeant investment was understandable, it still leaves PSCM with an enviable annualised return since inception of 14% versus a 9% return on the S&P 500 over the same period. Our analysis of PSH's current portfolio suggested there is scope for considerable upside, while our research into PSCM's historic investments shows what an unusual investment Valeant was for the firm. Our conversations with management satisfied us that they understood what a departure the investment was from the style that has served them so well.

Furthermore, we believed it was untenable for Bill Ackman to preside over a vehicle trading at a wide discount to NAV given his own activist credentials.

In an attempt to narrow the discount, the company obtained a premium listing in London in May 2017, and launched a buyback programme shortly after that. In January of this year, it was announced that PSCM were launching a tender offer for US\$300m of PSH shares at a discount between 16% and 24%. We were opposed to this course of action and felt that it should have been the company itself holding the tender offer given the accretion it would provide to NAV per share, and we made our views clear to the board and manager. We were satisfied with the eventual outcome that saw the company itself conduct the tender offer. Later in the year, Bill Ackman and his team added to their investments in PSH with purchases totalling over US\$400m.

While our investment in PSH has been only moderately profitable to date, we continue to believe that PSH's portfolio is attractively positioned, that its current discount is unsustainable, and that a more structural solution may be required to properly tackle the discount.

JPEL PRIVATE EQUITY

Description Investment Company	Total return on position FY18 (local)² 15%
Weight¹ 4.0%	Total return on position FY18 (GBP) 18%
Discount -17.5%	Contribution (GBP)³ 0.94%
% of investee company 17.5%	ROI since date of initial purchase⁴ 81%



JPEL Private Equity ('JPEL') was one of our largest contributors over the year to September 2018, generating a total return of 18% and contributing 0.94% to returns. The discount narrowed marginally over the period (from 20% to 18%), driven by strong share price growth (+13%) slightly ahead of NAV growth (+10%).

JPEL's year was punctuated by positive developments within its portfolio which helped to drive returns. The first, announced in October, was the partial sale of Accela (8% of the portfolio) to Berkshire Partners for US\$29m. The second was the sale of Celerion Holdings (8%) to Court Square Capital for US\$45m. The Celerion transaction marked the fourth exit from JPEL's direct investment programme since it began in 2014, with the average exit being achieved at an uplift of +143% over the carrying value one year prior, and representing a 3x multiple on the capital invested. These statistics are, in our opinion, very impressive and highlight the attractive portfolio that JPEL offers to investors.

These exits funded two mandatory redemptions during the year which returned US\$100m (24% of NAV) to investors at a zero discount to NAV.

JPEL continues to value its investments conservatively – average EV/EBITDA multiple of 8 times – and there is the scope for further exits from the portfolio. Just before the year end, JPEL revalued Mr Bults – JPEL's largest investment, a provider of municipal waste services – upwards by +59%. We are hopeful that this revaluation may indicate an imminent sale of this asset (with the potential for further distributions of cash to shareholders).

Given the prospects for further exits and returns of capital, we continue to view JPEL as a highly attractive proposition.

¹ % of total assets less current liabilities.

² Weighted returns adjusted for buys and sells over the year.

³ Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.

⁴ Figure quoted in GBP terms. Refer to Glossary on page 88 for further details.