BREVAN HOWARD

BH MACRO LIMITED

MONTHLY SHAREHOLDER REPORT:
DECEMBER 2017

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MONTHLY SHAREHOLDER REPORT: DECEMBER 2017

BREVAN HOWARD

www.bhmacro.com

BH Macro Limited

Manager:

Brevan Howard Capital Management LP ("BHCM")

Administrator:

Northern Trust International Fund Administration Services (Guernsey) Limited ("Northern Trust")

Corporate Broker:

J.P. Morgan Cazenove

Listings:

London Stock Exchange (Premium Listing)

Overview

BH Macro Limited ("BHM") is a closed-ended investment company, registered and incorporated in Guernsey on 17 January 2007 (Registration Number: 46235).

BHM invests all of its assets (net of short-term working capital) in the ordinary shares of Brevan Howard Master Fund Limited (the "Fund").

BHM was admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange on 14 March 2007.

Total Assets: $465 mm[1]

1. As at 29 December 2017. Source: BHM's administrator, Northern Trust.

Summary Information

BH Macro Limited NAV per Share (Calculated as at 29 December 2017)

Share Class	NAV (USD mm)	NAV per Share
USD Shares	60.1	$21.61
GBP Shares	405.1	£21.47

BH Macro Limited NAV per Share % Monthly Change

USD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007			0.10	0.90	0.15	2.29	2.56	3.11	5.92	0.03	2.96	0.75	20.27
2008	9.89	6.70	-2.79	-2.48	0.77	2.75	1.13	0.75	-3.13	2.76	3.75	-0.68	20.32
2009	5.06	2.78	1.17	0.13	3.14	-0.86	1.36	0.71	1.55	1.07	0.37	0.37	18.04
2010	-0.27	-1.50	0.04	1.45	0.32	1.38	-2.01	1.21	1.50	-0.33	-0.33	-0.49	0.91
2011	0.65	0.53	0.75	0.49	0.55	-0.58	2.19	6.18	0.40	-0.76	1.68	-0.47	12.04
2012	0.90	0.25	-0.40	-0.43	-1.77	-2.23	2.36	1.02	1.99	-0.36	0.92	1.66	3.86
2013	1.01	2.32	0.34	3.45	-0.10	-3.05	-0.83	-1.55	0.03	-0.55	1.35	0.40	2.70
2014	-1.36	-1.10	-0.40	-0.81	-0.08	-0.06	0.85	0.01	3.96	-1.73	1.00	-0.05	0.11
2015	3.14	-0.60	0.36	-1.28	0.93	-1.01	0.32	-0.78	-0.64	-0.59	2.36	-3.48	-1.42
2016	0.71	0.73	-1.77	-0.82	-0.28	3.61	-0.99	-0.17	-0.37	0.77	5.02	0.19	6.63
2017	-1.47	1.91	-2.84	3.84	-0.60	-1.39	1.54	0.19	-0.78	-0.84	0.20	0.11	-0.30

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BREVAN HOWARD

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EUR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007			0.05	0.70	0.02	2.26	2.43	3.07	5.65	-0.08	2.85	0.69	18.95
2008	9.92	6.68	-2.62	-2.34	0.86	2.84	1.28	0.98	-3.30	2.79	3.91	-0.45	21.65
2009	5.38	2.67	1.32	0.14	3.12	-0.82	1.33	0.71	1.48	1.05	0.35	0.40	18.36
2010	-0.30	-1.52	0.03	1.48	0.37	1.39	-1.93	1.25	1.38	-0.35	-0.34	-0.46	0.93
2011	0.71	0.57	0.78	0.52	0.65	-0.49	2.31	6.29	0.42	-0.69	1.80	-0.54	12.84
2012	0.91	0.25	-0.39	-0.46	-1.89	-2.20	2.40	0.97	1.94	-0.38	0.90	1.63	3.63
2013	0.97	2.38	0.31	3.34	-0.10	-2.98	-0.82	-1.55	0.01	-0.53	1.34	0.37	2.62
2014	-1.40	-1.06	-0.44	-0.75	-0.16	-0.09	0.74	0.18	3.88	-1.80	0.94	-0.04	-0.11
2015	3.34	-0.61	0.40	-1.25	0.94	-0.94	0.28	-0.84	-0.67	-0.60	2.56	-3.22	-0.77
2016	0.38	0.78	-1.56	-0.88	-0.38	3.25	-0.77	0.16	-0.56	0.59	5.37	0.03	6.37
2017	-1.62	1.85	-3.04	0.54	-0.76*								-3.07

GBP	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007			0.11	0.83	0.17	2.28	2.55	3.26	5.92	0.04	3.08	0.89	20.67
2008	10.18	6.86	-2.61	-2.33	0.95	2.91	1.33	1.21	-2.99	2.84	4.23	-0.67	23.25
2009	5.19	2.86	1.18	0.05	3.03	-0.90	1.36	0.66	1.55	1.02	0.40	0.40	18.00
2010	-0.23	-1.54	0.06	1.45	0.36	1.39	-1.96	1.23	1.42	-0.35	-0.30	-0.45	1.03
2011	0.66	0.52	0.78	0.51	0.59	-0.56	2.22	6.24	0.39	-0.73	1.71	-0.46	12.34
2012	0.90	0.27	-0.37	-0.41	-1.80	-2.19	2.38	1.01	1.95	-0.35	0.94	1.66	3.94
2013	1.03	2.43	0.40	3.42	-0.08	-2.95	-0.80	-1.51	0.06	-0.55	1.36	0.41	3.09
2014	-1.35	-1.10	-0.34	-0.91	-0.18	-0.09	0.82	0.04	4.29	-1.70	0.96	-0.04	0.26
2015	3.26	-0.58	0.38	-1.20	0.97	-0.93	0.37	-0.74	-0.63	-0.49	2.27	-3.39	-0.86
2016	0.60	0.70	-1.78	-0.82	-0.30	3.31	-0.99	-0.10	-0.68	0.80	5.05	0.05	5.79
2017	-1.54	1.86	-2.95	0.59	-0.68	-1.48	1.47	0.09	-0.79	-0.96	0.09	-0.06	-4.35

*As previously announced by the Company, the Company determined that all remaining shares in the Euro share class be converted into Sterling shares effective as of 29 June 2017 and all Euro shares held by the Company in treasury were cancelled on that date. The Euro share class has been closed and its listing has been cancelled.

Source: Fund NAV data is provided by the administrator of the Fund, International Fund Services (Ireland) Limited ("IFS"). BHM NAV and NAV per Share data is provided by BHM's administrator, Northern Trust. BHM NAV per Share % Monthly Change is calculated by BHCM. BHM NAV data is unaudited and net of all investment management and all other fees and expenses payable by BHM. In addition, the Fund is subject to an operational services fee.

With effect from 1 April 2017, the management fee is 0.5% per annum. BHM's investment in the Fund is subject to an operational services fee of 0.5% per annum.

No management fee or operational services fee is charged in respect of performance related growth of NAV for each class of share in excess of its level on 1 April 2017 as if the tender offer commenced by BHM on 27 January 2017 had completed on 1 April 2017.

NAV performance is provided for information purposes only. Shares in BHM do not necessarily trade at a price equal to the prevailing NAV per Share.

Data as at 29 December 2017

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

ASC 820 Asset Valuation Categorisation on a non look-through basis*

Brevan Howard Master Fund Limited

Unaudited as at 29 December 2017

	% of Gross Market Value*
Level 1	79.6
Level 2	10.3
Level 3	0.1
At NAV	10.0

Source: BHCM

* This data is unaudited and has been calculated by BHCM using the same methodology as that used in the most recent audited financial statements of the Fund. The relative size of each category is subject to change. Sum may not total 100% due to rounding.

Level 1: This represents the level of assets in the portfolio which are priced using unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: This represents the level of assets in the portfolio which are priced using either (i) quoted prices that are identical or similar in markets that are not active or (ii) model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.

Level 3: This represents the level of assets in the portfolio which are priced or valued using inputs that are both significant to the fair value measurement and are not observable directly or indirectly in an active market.

At NAV: This represents the level of assets in the portfolio that are invested in other Brevan Howard funds and priced or valued at NAV.

ASC 820 Asset Valuation Categorisation on a look-through basis*

	% of Gross Market Value*
Level 1	87.7
Level 2	12.3
Level 3	0.1

Source: BHCM

* This data reflects the combined ASC 820 levels of the Fund and the underlying allocations in which the Fund is invested, proportional to each of the underlying allocation's weighting in the Fund's portfolio. The data is unaudited and has been calculated by BHCM using the same methodology as that used in the most recent audited financial statements of the Fund and any underlying funds (as the case may be). The relative size of each category is subject to change. Sum may not total 100% due to rounding.

Level 1: This represents the level of assets in the portfolio which are priced using unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: This represents the level of assets in the portfolio which are priced using either (i) quoted prices that are identical or similar in markets that are not active or (ii) model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.

Level 3: This represents the level of assets in the portfolio which are priced or valued using inputs that are both significant to the fair value measurement and are not observable directly or indirectly in an active market.

Annual Manager Review: 2017

The information in this section has been provided to BHM by BHCM.

The NAV per share of the USD share class of BH Macro Limited depreciated by 0.30% in 2017, and the NAV per share of the Sterling shares depreciated by 4.35% in 2017. At the start of the year, the Fund was positioned for a continuation of the "Trump Trade" that had been in-play since the election victory of President Trump in November 2016. The largest exposures were long positions in the US dollar, US equities and interest rate volatility combined with short positions in US, Japanese and UK interest rate markets. Furthermore, given the upcoming elections in France, Germany, Netherlands and possibly Italy, the Fund was also positioned for an increase in volatility within European markets. This view was expressed via swap spread and government bond relative value positions together with option and volatility positions in rates and the euro currency.

The reversal, early on in the year, in the direction of the US dollar and euro, together with the lack of directional follow-through in US interest rates led to losses, which were partially offset by gains from the European trades.

Losses in Q2 stemmed partially from the very benign outcome in the first round of the French election. Positions designed to benefit from an increase in volatility during the election, without taking a view on the eventual outcome, suffered as a result. These losses were further compounded as the likelihood of snap elections in Italy receded.

During the second half of the year, in what were largely trendless markets, the Fund's performance was approximately flat. Positioning in the euro currency was reversed with long euro positions generating profits early in Q3. European swap spread and relative-value bond trading detracted slightly as did volatility positioning across several markets.

The Fund's value at risk ("VaR") fell during the second half of the year to levels in line with recent historic norms, although we would caution that during extended periods of low volatility VaR can be a poor measure of P&L potential, particularly for a portfolio that contains option strategies with asymmetric pay-offs.

Moving to the economic picture, the global expansion accelerated and broadened in 2017, leaving behind lingering worries about downside risks. At the same time, inflation remained calm in most major economies, except the UK which experienced a sharp increase on the heels of the Brexit-related fall in sterling. The combination of strong growth and generally modest inflation led to a continuation of monetary policy trends, with the US and Canada gradually removing policy accommodation, the euro area tapering asset purchases, and Japan maintaining a high level of accommodation. As discussed above, political risks that loomed large at the start of the year were favourably resolved with little disruption. This favourable backdrop buoyed financial markets, leading to record highs in many global equity markets, relatively low interest rates, and tight credit spreads.

In 2018, as we enter the ninth year of the expansion, the ageing business cycle would typically be displaying late-cycle dynamics of slower growth and rising inflation. However, this cycle is defying that pattern. Economic activity appears to be accelerating further above trend in most economies and inflation pressures are only beginning to emerge. Despite the age of the business cycle, the data suggest that this cycle is behaving more mid-cycle or even early-cycle in certain sectors like manufacturing. Underpinning this dynamic are the early signs that business investment and productivity are picking up from the doldrums. If those trends continue, they could have far reaching consequences, including continued support for risk assets, higher equilibrium interest rates, and an end to secular stagnation. Tax reform in the US is a further tailwind promoting growth and investment in an economy that's already operating above its potential. If these favorable trends persist, there will be pressure on central banks to provide less accommodation going forward. Policy makers will face a tricky balancing act between strong growth and easy financial conditions, on the one hand, and inflation that generally remains below target, on the other hand.

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Performance Review

The information in this section has been provided to BHM by BHCM.

In December 2017, modest gains from interest rate trading were broadly offset by losses in FX. Interest rate trading gains came from directional trading in Europe and the US, while yield curve positioning was also profitable in Europe but slightly negative in the US. FX losses stemmed from tactical trading and option time decay across a range of currency pairs.

The performance review and attributions are derived from data calculated by BHCM, based on total performance data for each period provided by the Fund's administrator (IFS) and risk data provided by BHCM, as at 29 December 2017.

Performance by Asset Class
Monthly, quarterly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by asset class as at 29 December 2017

2017	Rates	FX	Commodity	Credit	Equity	Tender Offer	Total
January 2017	1.12	-2.06	0.02	0.13	-0.67	0.00	-1.47
February 2017	1.21	-0.18	-0.03	0.09	0.82	0.00	1.91
March 2017	-2.05	-0.85	0.00	0.07	-0.02	0.00	-2.84
April 2017	-0.27	-0.34	0.00	-0.02	-0.00	4.46	3.84
May 2017	-0.58	0.06	-0.05	-0.01	-0.02	0.00	-0.60
June 2017	-0.97	-0.20	-0.10	0.00	-0.12	0.00	-1.39
July 2017	-0.05	1.67	0.06	0.01	-0.15	0.00	1.54
August 2017	-0.39	0.40	0.11	0.06	0.02	0.00	0.19
September 2017	-0.08	-0.52	-0.16	0.02	-0.04	0.00	-0.78
October 2017	-0.38	-0.53	-0.08	0.03	0.11	0.00	-0.84
November 2017	-0.16	0.15	0.01	-0.06	0.26	0.00	0.20
December 2017	0.36	-0.32	0.02	-0.00	0.04	0.00	0.11
Q1 2017	0.25	-3.06	-0.01	0.28	0.12	0.00	-2.44
Q2 2017	-1.81	-0.48	-0.14	-0.02	-0.14	4.46	1.79
Q3 2017	-0.52	1.55	0.00	0.09	-0.18	0.00	0.94
Q4 2017	-0.17	-0.70	-0.04	-0.03	0.42	0.00	-0.53
2017	-2.24	-2.72	-0.19	0.32	0.21	4.46	-0.30

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Methodology and Definition of Contribution to Performance:
Attribution by asset class is produced at the instrument level, with adjustments made based on risk estimates.

The above asset classes are categorised as follows:
"**Rates**": interest rates markets
"**FX**": FX forwards and options
"**Commodity**": commodity futures and options
"**Credit**": corporate and asset-backed indices, bonds and CDS
"**Equity**": equity markets including indices and other derivatives
"**Tender Offer**": repurchases under the tender offer launched on 27 January 2017.

Monthly VaR of the Fund by asset class as a % of total VaR*

	Rates	Vega	FX	Equity	Commodity	Credit
January 2017	32	18	30	14	2	3
February 2017	32	19	29	14	3	3
March 2017	41	32	13	3	9	3
April 2017	32	17	33	11	6	1
May 2017	37	21	23	8	8	2
June 2017	20	17	41	11	9	3
July 2017	23	16	53	3	3	2
August 2017	30	15	46	6	1	2
September 2017	36	14	40	5	3	2
October 2017	47	15	8	21	5	3
November 2017	40	13	10	33	2	2
December 2017	55	11	7	23	2	2

Source: BHCM. Data as at 29 December 2017.

* Calculated using historical simulation based on 1 day, 95% confidence interval. Sum may not add up to 100% due to rounding.

Performance by Strategy Group
Monthly, quarterly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by strategy group as at 29 December 2017

2017	Macro	Systematic	Rates	FX	Equity	Credit	EMG	Commodity	Tender Offer	Total
January 2017	-1.20	-0.02	-0.02	-0.36	-0.00	0.13	0.00	-0.00	0.00	-1.47
February 2017	1.73	0.01	0.10	-0.08	-0.00	0.08	0.08	-0.00	0.00	1.91
March 2017	-2.79	-0.02	-0.26	-0.07	-0.00	0.15	0.15	-0.00	0.00	-2.84
April 2017	-0.79	-0.06	0.29	0.01	-0.00	0.01	-0.09	-0.00	4.46	3.84
May 2017	-0.82	0.00	0.23	0.02	-0.00	-0.01	-0.01	-0.00	0.00	-0.60
June 2017	-1.05	-0.02	-0.35	-0.02	-0.00	0.01	0.05	-0.00	0.00	-1.39
July 2017	1.38	0.06	-0.03	0.02	-0.00	0.00	0.11	-0.00	0.00	1.54
August 2017	0.03	0.01	-0.06	0.07	-0.00	0.05	0.09	-0.00	0.00	0.19
September 2017	-0.58	-0.02	-0.15	-0.06	-0.00	0.01	0.01	-0.00	0.00	-0.78
October 2017	-0.88	0.04	0.13	0.04	-0.00	0.04	-0.21	-0.00	0.00	-0.84
November 2017	0.34	0.01	-0.07	-0.03	-0.00	-0.03	-0.01	-0.00	0.00	0.20
December 2017	0.32	-0.01	0.03	-0.01	-0.00	0.01	-0.24	-0.00	0.00	0.11
Q1 2017	-2.29	-0.03	-0.18	-0.51	-0.00	0.35	0.23	-0.00	0.00	-2.44
Q2 2017	-2.64	-0.08	0.17	0.01	-0.00	0.01	-0.05	-0.00	4.46	1.79
Q3 2017	0.82	0.05	-0.24	0.03	-0.00	0.06	0.21	-0.00	0.00	0.94
Q4 2017	-0.23	0.04	0.10	-0.00	-0.00	0.02	-0.46	-0.00	0.00	-0.53
2017	-4.30	-0.02	-0.15	-0.47	-0.00	0.44	-0.08	-0.00	4.46	-0.30

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Methodology and Definition of Contribution to Performance:

Strategy Group attribution is approximate and has been derived by allocating each trader book in the Fund to a single category. In cases where a trader book has activity in more than one category, the most relevant category has been selected.

The above strategies are categorised as follows:
"**Macro**": multi-asset global markets, mainly directional (for the Fund, the majority of risk in this category is in rates)
"**Systematic**": rules-based futures trading
"**Rates**": developed interest rates markets
"**FX**": global FX forwards and options
"**Equity**": global equity markets including indices and other derivatives
"**Credit**": corporate and asset-backed indices, bonds and CDS
"**EMG**": global emerging markets
"**Commodity**": liquid commodity futures and options
"**Tender Offer**": repurchases under the tender offer launched on 27 January 2017.

Manager's Market Review and Outlook

The information in this section has been provided to BHM by BHCM

US

Private domestic economic activity in the US was very strong in Q4. In particular, core retail sales rose at a torrid 9% annualised pace in the last three months. Household spending looks to be picking up speed with moderate income growth, brisk gains in wealth, clean balance sheets, and positive sentiment. Similarly, business investment is also on a solid footing. The acceleration in these two key sectors suggests that the business cycle has more room to run, despite entering its ninth year. Nevertheless, overall real Gross Domestic Product ("GDP") growth should be held below 3% annualised in Q4 because of a sizable subtraction from trade. Although exports have risen, imports have increased by even more.

Inflation has bottomed and is slowly moving up. Core consumer price index inflation rose 0.3% in December, which helps allay some of the concern that the low prints seen earlier in the year would persist. When the weak numbers from last spring are no longer included in the y/y figures, core inflation will move closer to the Federal Reserve's 2% inflation target.

The labour market trod water in December. The unemployment rate was unchanged at 4.1% and employment growth slowed. The seasonal patterns in certain sectors, like retail, are difficult to pin down during the holidays so it generally makes sense to average the employment gains in November and December. On that basis, the average monthly increase was an impressive 200,000. Wages did tick up in December, rising 0.3% m/m which left the y/y change at 2.5%, which is in line with subdued productivity trends during this cycle.

In Washington, the President signed tax reform into law. The Internal Revenue Service rushed to change withholding tables so that individuals will see higher take home pay early in 2018. On the business side, the cut in the corporate tax rate to 21% and the wholesale reform of international tax rules immediately transforms the US into the most competitive G-7 economy. Putting the pieces together, economists raised their real GDP forecasts for the next couple years providing a modest further boost to an already healthy outlook. At her last press conference, Chair of the Federal Reserve Janet Yellen raised rates but downplayed the improvement in the incoming data and the impact of the tax reform. The median policy maker still sees three rate hikes in 2018, which is the same guidance they had been offering since late 2016.

UK

Although the UK economy has continued to evolve at a moderate pace, there are signs that spare capacity has continued to erode. GDP grew 0.4% q/q in Q3, a modest pace compared to historical rates, but still an improvement from the 0.3% q/q pace seen in the previous two quarters. On the expenditure side, growth was supported by a pick up in consumption, supported by a drawdown in savings. In general, surveys of activity have remained resilient; most recently the composite Purchasing Managers' Index ("PMI") rose 0.1pts to 54.9 in December, still pointing towards a pace of growth close to the UK's economic potential. Hard data appears to have followed suit with the resilient surveys; industrial production grew 0.4% m/m in November, aided by another strong increase in manufacturing output. Manufacturing has been growing at an annualised pace of 5% over the past 6 months, still supported by the lower exchange rate. However, the economy continues to face a multitude of headwinds, in part caused by uncertainty around the Brexit process. For example, non-housing construction has fallen 5% over the past 3 months, whilst business investment remains meagre and the outlook for the housing market remains benign, with price expectations of housing remaining relatively subdued. The labour market has also started to moderate lately, with the level of employment falling 56,000 over the three months to October. At the same time, the participation rate has fallen by 0.3ppts, allowing the unemployment rate to remain unchanged for the third month at the recent lows of 4.3%. This is 0.2ppts below the Bank of England's ("BoE") estimate of the long-term equilibrium unemployment rate.

Despite the moderate economic growth, data suggests there is little spare capacity in the economy. Alongside the low level of the unemployment rate, there has been a pick up in wage growth in most recent data, with average weekly earnings growing around 3% annualised as of October. Meanwhile, headline inflation rose 0.1ppts to 3.1% y/y in November, the highest rate since April 2012. In addition, various surveys including the PMI, the British Chambers of Commerce's Quarterly Economic Survey, and the BoE's Agents' summary of business conditions have alluded to increasing difficulty in recruitment of skilled labour, which would point to higher wage growth in the future. At the most recent BoE Monetary Policy Committee ("MPC") meeting in December, members voted unanimously to keep the policy rate unchanged at 0.5%, after having raised the policy rate 0.25ppts for the first time in a decade at the November meeting. The MPC noted that should the economy evolve in line with its November forecasts, further modest increases in the Bank Rate would be warranted over the next few years. In addition, the MPC stated that it will incorporate the small stimulus announced in the Government's Autumn Budget into the February forecasts, as well as the positive developments around the Brexit negotiations.

Brexit negotiations moved forward in December, with the EU council declaring that sufficient progress has been made on the first phase of the negotiations (divorce bill, rights of citizens and the Irish border) to move onto the second phase regarding transition and the framework for the future relationship. Although still subject to change, the first phase of negotiations had agreed on the methodology for calculating the Brexit settlement, now cited to be around €45-55bn. It was also agreed that there would be no hard border between Northern Ireland and the Republic of Ireland. President of the European Council, Donald Tusk, said 'exploratory contacts' will begin on Britain's future relationship, but formal talks are not expected to begin before March. In the meantime, the UK still has to decide the nature of the end relationship it is aiming to achieve with the EU.

EMU

At the end of 2017, the economy of the Eurozone continued to perform strongly, if not accelerate, according to some business surveys. Indeed, the Economic and Monetary Union ("EMU") Composite PMI increased further, from 57.5 to 58.1, the highest level since 2006, while the Economic Sentiment Indicator surged from 114.6 to 116.0, the strongest since 2000. A fly in the ointment was that two key national business condition indicators fell, especially in their most leading components, although remaining close to their highs. The German ifo Business Climate Index fell from an all-time high of 117.6 in November to 117.2 in December, as the leading expectations component dropped more significantly, from 111.0 to 109.5. The National Bank of Belgium's business survey fell from 1.6 to 0.1. At the same time, actual activity indicators referring to the month of November, from industrial production to retail sales marked a substantial rebound from relatively soft outcomes in October.

However, despite this relatively strong cyclical recovery phase, underlying inflation dynamics remain very subdued; showing none of the pick-up signs looked for by the European Central Bank ("ECB") in its latest macroeconomic projections. Indeed, after the December ECB policy meeting, the release of the December Harmonised Index of Consumer Prices ("HICP") report showed core inflation falling back to below 1%, while wage dynamics slowed again in Q3, from 2.1% to 1.7% y/y, as did unit labour costs. The latest Producer Price Index release provided was subdued, while import prices are deflating again due to the on-going strengthening of the euro, especially against the US dollar.

China

Activity data was mixed in December. The official Purchasing Managers' Index ("PMI") was weaker at 51.6 in December versus 51.8 for November, but the Caixin PMI was stronger at 51.5 for December. Fixed Asset Investment growth recorded was 7.2% for December, which was the same as November. Industrial production growth was stronger at 6.2% for December. Retail sales weakened and printed 9.4% y/y for December. Inflation rose to 1.8% from 1.7% prior. Producer prices again dipped from the prior month, printing 4.9%. On the external side, export data weakened to 7.4% y/y for December and imports fell significantly to 0.9% y/y. The seven day repo rate was on average 3.4% for December compared to 3.3% for November.

Japan

Inadvertently or not, the Bank of Japan ("BoJ") caused a bit of a stir in bond markets by purchasing a surprisingly light amount of Japanese Government Bonds ("JGBs") in its latest round of bond buying. The 10-year JGB rate moved up 4bps or so, and the yen strengthened against the dollar. The market suspects that the BoJ may be less than steadfast in its announced yield-curve control policy, but faltering now makes no sense. Clearly, the BoJ can not declare victory. The 12-month core rate is currently running at 0.8%, and most of that is due to energy prices. Inflation expectations as measured in the consumer survey have inched up over the last few months but hardly at a speed, or level, that would suggest an upturn in inflation is in the offing. Spring wage negotiations have yet to run their course, but early indications do not suggest significantly higher increases than seen a year ago. Pressure from the bond market had been expected in the event of the BoJ prematurely changing its policy, for example if the buying required to keep rates around zero became too onerous. However, so far that has not been the case, as 10-year rates have been fairly quiescent, at least up to the point when the BoJ surprised markets. The 10-year JGB rate remains within the range seen over the last twelve months, albeit now at the top of that range.

Now may not be the time for the bond market to challenge the BoJ, but it may not be too far away. Markets are beginning to sense a turn in central bank accommodation around the world as the global economy is powering ahead. Clearly, Japanese aggregate demand is contributing to the overall gains. Industrial production continues to move up, rising 0.6% in the latest report. The Tankan survey remained strong with 2017 Q4 results moving up, and the 2018 Q1 forecast for large enterprises unchanged at a high level. The Economy Watchers Survey improved from the November level, which was already the highest for four years.

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• The Fund is speculative and involves substantial risk.

• The Fund will be leveraged and will engage in speculative investment practices that may increase the risk of investment loss. The Fund may invest in illiquid securities.

• Past results of the Fund's investment managers are not necessarily indicative of future performance of the Fund, and the Fund's performance may be volatile.

• An investor could lose all or a substantial amount of his or her investment.

• The Fund's investment managers have total investment and trading authority over the Fund, and the Fund is dependent upon the services of the investment managers.

• Investments in the Fund are subject to restrictions on withdrawal or redemption and should be considered illiquid. There is no secondary market for investors' interests in the Fund and none is expected to develop.

• The investment managers' incentive compensation, fees and expenses may offset the Fund's trading and investment profits.

• The Fund is not required to provide periodic pricing or valuation information to investors with respect to individual investments.

• The Fund is not subject to the same regulatory requirements as mutual funds.

• A portion of the trades executed for the Fund may take place on foreign markets.

• The Fund and its investment managers are subject to conflicts of interest.

• The Fund is dependent on the services of certain key personnel, and, were certain or all of them to become unavailable, the Fund may prematurely terminate.

• The Fund's managers will receive performance-based compensation. Such compensation may give such managers an incentive to make riskier investments than they otherwise would.

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