BH Macro Limited

Monthly Shareholder Report

31 December 2008 www.bhmacro.com

Disclaimer / Important information

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS

Summary information

BH Macro Limited NAVs per share (as at 31 December 2008)

Shares Class	NAV (USD mm)	NAV per Share
USD Shares	795.77	$14.47
EUR Shares	431.08	€14.47
GBP Shares	413.27	1487p

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	6.69	-2.79	-2.48	0.77	2.78	1.13	0.76	-3.13	2.76	3.74	-0.68	20.32

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	2.87	1.28	0.99	-3.30	2.79	3.90	-0.45	21.65

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	6.85	-2.61	-2.33	0.95	2.94	1.33	1.21	-2.99	2.84	4.21	-0.67	23.25

*NAV performance is provided for information purposes only. Shares in BH Macro Limited do not necessarily trade at a price equal to the prevailing NAV per Share.
Source: Underlying BHMF NAV data is provided by the Administrator of BHMF, International Fund Services (Ireland) Limited. BH Macro Limited NAV and NAV per Share data is provided by the Fund's Administrator, Northern Trust International Fund Administration Services (Guernsey) Limited. BH Macro Limited NAV per Share % Monthly Change calculations made by BHAM.

BH Macro Limited NAV data is unaudited and net of all investment management fees (2% annual management fee and 20% performance fee) and all other fees and expenses payable by BH Macro Limited. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Annual Investment Manager Review

The following is a report from BHAM, investment manager of Brevan Howard Master Fund Limited:

Brevan Howard concluded another successful year in 2008. In response to the severe disruption of capital markets, we took decisive action to maintain the market liquidity of our risk exposures, to increase the cash liquidity of our funds and to ensure that the exposure of our funds to vulnerable counterparties was as low as possible.

We also reduced the number of staff, re-allocated capital to concentrate risk with those individuals we are most comfortable can manage it in liquid, uncomplicated strategies, cut non–core businesses, and focused on controlling risk in all its forms.

Clearly, 2008 was a year to prioritise managing risk rather than reaching for perceived opportunities. As markets became increasingly dysfunctional, each of counterparty risk, operational risk and regulatory risk arguably became more difficult to manage than market risk. We at Brevan Howard have always focused on these non-market risks.

With the benefit of hindsight, counterparty risk is obvious; but this was not always so. For example, many participants did not realise that prime brokers could re-hypothecate client securities, or that their margin was not held in segregated accounts. These are just contractual terms where the potential risk is clear. Our view of counterparty risk, however, includes factors beyond these obvious risks.

We have always operated on the principle that in times of stress it is impossible to come to an informed view as to counterparty risk; and that contractual protections can only go so far because it can take a long time to enforce them. On that basis, we insist on daily two-way collateral movement for derivative mark–to-market balances. We check all margin statements on a line-by-line basis and challenge anything that is incorrect. We insist that counterparties cannot have the right to value positions at their sole discretion. We limit the rights of prime brokers to re-hypothecate our securities. We move cash balances away from our prime brokers to segregated custody accounts at third parties. We keep cash in government paper rather than treat cash balances as a profit centre; and we strive to minimise margin requirements and maximise unencumbered cash. These policies are not a response to the credit crisis. They were in place before the crisis emerged and having them in place meant that we were largely immunised against the fallout from various counterparty crises.

Another risk that came to the fore in a year of dislocations was operational risk. Many market participants were unable to price their securities or quantify their exposures. In effect, they lost control of their positions. We built our business on the overriding principle that if our risk team cannot track an exposure, then we will not assume that exposure. From inception, we have built our infrastructure so that all of our positions are captured on one system. Furthermore, we took aggressive steps to reduce the number of positions and to simplify the portfolio at the first signs of market stress in February. As such, we did not encounter operational difficulties, or difficulties in pricing and monitoring our exposures, in spite of the discontinuities in market liquidity and the general scarcity of financing.

We will continue to work on mitigating these counterparty and operational risks in the future.

The increased regulatory risk that all market participants face was highlighted by the unexpected ban on short selling of financial stocks, and the impact it had on many managers. We believe the current debate as to whether short selling actually exacerbates financial stress misses the point. Rather, at a time of extreme distress, market participants cannot be seen to be profiting from public misery while regulators and politicians remain idle.

We believe that any perceived ‘anti-social’ behaviour will be met with increased regulatory scrutiny at a minimum, and quite possibly retribution, regardless of the economic arguments for or against such behaviour. With this in mind, we had reduced our short exposure to financial stocks in advance of the regulators and

continue to monitor any activity that may be construed as ‘anti-social’, regardless of the fact that it may be normal market practice.

Managing market risk was obviously extremely challenging in 2008. Our fundamental market risk management discipline is to cut exposure and reduce leverage at the first sign of market stress. This is the discipline that forced us to cut our positions in the summer of 2003, October 2005 and May 2006. In each of those instances markets quickly normalised and so, with hindsight, the decision to cut risk caused returns to be lower than they would otherwise have been. In 2008 however, this discipline meant that we were well ahead of the de-leveraging avalanche that rolled over all markets throughout the year.

Starting in February we aggressively cut securities leverage and liquidity risk across all of our funds. For example, our securities balance sheet in Brevan Howard Master Fund Limited (“BHMF”) went from $50bn at the start of the year to $10bn by December. Furthermore, we cut our gross vega by more than 60% and the number of derivatives in the portfolio by more than 50%. We also raised our unencumbered cash balances to 85% and cut exposures in all markets which were becoming illiquid. As a result of these actions, all of our funds are currently highly liquid and well positioned to cope with what we believe will be continued market stress.

The macro environment is now fairly clear: global economies are facing a severe slowdown, with a meaningful risk of something much worse. That said, the policy response has been swift and increasingly unconventional. How the clash between the unprecedented imperative to de-lever and the unprecedented policy response plays out is impossible to predict.

The only scenario we are fairly certain of is that capital markets will remain dysfunctional for a long time. When LTCM imploded in 1998, some of the markets in which LTCM traded remained dislocated for up to 3 years. The LTCM episode was an insignificant blip compared to the stress that capital markets are experiencing now. To assume that any policy response will quickly return capital markets to ‘normality’ is naïve.

The continued dislocation in capital markets has obvious investment implications: highly leveraged positions in securities should continue to be avoided; illiquidity demands an enormous risk premium; getting caught in value traps is a significant risk; volatility will likely remain at elevated levels; liquidation of legacy positions has further to run and both monetary and fiscal policy should stay accommodative for an extended period of time. This environment is exceptionally benign for our core macro trading strategies.

A concern that some investors have voiced to us recently is that the big macro trade of lower rates and steeper curves has run its course and that we will find it difficult to make money going forward. We believe that these concerns about future opportunities are misplaced. While certain trades may have run their course, the trading opportunities we see today are easily as compelling as any of those that we have seen over the last six years.

During the period from the launch of BHMF in April 2003 to the summer of 2007, rates rose, curves flattened and volatility fell; an environment which was challenging for a rates and FX focused fund. Nonetheless we consistently found trading opportunities to generate an average 10%-11% annualised return for our investors. The current environment of enormous sovereign funding needs, unstable economies, heightened volatility, continued liquidation and untested policy initiatives, with unpredictable consequences, should provide a richer trading opportunity set than the 2003-2007 experience. I am quite comfortable that we have the team and the resources to exploit those opportunities.

The hedge fund industry is going through a very traumatic period, and despite our success last year we’ve had our share of redemptions; which have been in the order of about 20% across all Brevan Howard funds. Ironically, these redemptions have been exacerbated both by our strong relative out-performance, which has meant that we are now overweight in many portfolios, and by our liquidity profile which has

provided investors with a source of cash as other funds have restricted redemptions.

However, given the amount of profit we generated last year and our fund raising efforts to June 2008, we will be managing significantly more assets, once the current redemption cycle has run its course, than we were at the start of 2008. Consequently, our business platform remains uncompromised and we have not been forced to pare back spending on any infrastructure, risk or control functions. We also continue to control more than enough capital to attract and retain key trading talent.

Despite our relatively strong market position, we have no immediate intention to expand into other areas or start new businesses. We will continue to stress caution rather than look for opportunities outside our core competencies in trading.

The only new initiatives we have in the pipeline are to lever our expertise in rates and FX by launching UCITS III funds that trade those markets and to offer a credit trading fund to be managed by our existing credit team, which made money for BHMF in 2008 despite the obvious challenges in credit markets last year.

Although 2008 was a brutal year for all asset managers regardless of performance, I am confident that the hedge fund industry, and Brevan Howard in particular, will emerge from this financial crisis in a better position than we entered it. There will always be a demand for genuine alpha and the crisis we are living through has given investors far greater understanding as to what alpha really is, the value of that alpha and who can generate it.

In the meantime, I'm pleased to report a strong start to the year across all Brevan Howard funds, and I can assure you that all of us at Brevan Howard are determined to have another successful year in 2009.

Sincerely,
Alan Howard
Chief Investment Officer and Joint Chief Executive Officer
Brevan Howard Asset Management LLP

2008 Performance review

Performance by Asset Class
2008 performance comments by asset class for Brevan Howard Master Fund Limited ("BHMF"):

Interest Rates	BHMF made strong gains in interest rates in Jan/Feb, primarily in USD and EUR curves. BHMF gave back some profit between Mar and May. BHMF was profitable in H2 through directional trades.
FX	BHMF's exposure, as measured by VaR, was limited for most of the year, apart from option vega. BHMF's P/L in this asset class was limited.
Equity	BHMF's exposure, as measured by VaR, was small. BHMF's P/L in this asset class was limited.
Commodity	BHMF was profitable in this asset class up to June in a range of commodities, when markets peaked. BHMF gave back some, but not all, of the profits in H2 (many of BHMF's exposures, via options, had limited downside).
Credit	BHMF's exposure, as measured by VaR, was small. BHMF's P/L in this asset class was limited.
Other	BHMF avoided losses in fixed income relative value and emerging markets as positions were not large relative to total risk.

Source: BHAM

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Monthly VaR by Asset Class

2008 VaR* in $mm by asset class as at each month end (Brevan Howard Master Fund Limited):

	Total	Interest Rates	Vega	FX	Equity	Commodity	Credit	NAV $bn**
Jan	55	45	50	19	34	14	13	16.8
Feb	113	96	50	24	16	21	14	18.3
Mar	73	49	34	10	9	7	15	17.9
Apr	82	61	43	15	8	7	9	17.8
May	45	42	39	13	22	16	9	17.9
Jun	85	61	44	16	13	12	10	18.9
Jul	104	93	33	14	16	11	9	19.2
Aug	63	55	33	18	18	12	9	19.3
Sep	113	86	39	7	13	5	12	19.3
Oct	86	69	29	6	4	2	14	19.8
Nov	84	73	26	7	2	3	9	20.4
Dec	92	78	22	9	1	3	8	20.3

Source: BHAM

*Calculated using historical simulation based on a 1 day, 95% confidence interval.

**This figure is the sum of the NAVs of the feeder funds of Brevan Howard Master Fund Limited plus investments directly in Brevan Howard Master Fund Limited by other funds managed by Brevan Howard Offshore Management Limited.

Monthly Contribution to Performance

2008 monthly contribution (%) to total NAV performance by asset class (BH Macro USD):

	Total	Interest Rates	FX	Equity	Commodity	Credit
Jan	9.89	9.12	-0.07	-0.54	0.24	1.15
Feb	6.69	4.82	0.37	0.37	0.70	0.43
Mar	-2.79	-2.84	0.08	-0.06	0.05	-0.01
Apr	-2.48	-2.29	-0.04	0.06	0.41	-0.63
May	0.77	-0.32	0.08	0.16	0.88	-0.03
Jun	2.78	1.27	-0.18	0.58	0.51	0.60
Jul	1.13	2.74	-0.42	-0.34	-0.83	-0.01
Aug	0.76	1.81	-0.83	-0.23	-0.10	0.11
Sep	-3.13	-1.65	-0.10	-0.69	-0.79	0.11
Oct	2.76	2.39	1.62	-0.38	-0.58	-0.29
Nov	3.74	4.51	-0.48	-0.12	-0.06	-0.13
Dec	-0.68	0.99	-1.16	-0.10	0.07	-0.47
YTD	20.32	21.46	-1.17	-1.36	0.51	0.87

Source: BHAM

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December 2008 Performance Review

During the month, Brevan Howard Master Fund Limited made gains in fixed income directional trades. These were more than offset by losses in directional FX trades in major currencies and credit trades.

Outlook

The following is a report from Brevan Howard Asset Management LLP, the investment manager of Brevan Howard Master Fund Limited:

US

In 2008, markets broke down, the global economy plunged into severe recession and policy makers scrambled to erect a safety net. Not surprisingly, credit markets were crushed, stocks tumbled and yields on short-term government obligations reached historic lows. In many ways, the year was the worst since the Great Depression for the economy and for capital markets.

Until the summer and in particular the collapse of Lehman, markets believed that financial and economic problems would be mild: subprime would be contained; bank failures would be isolated; recession would be moderate; emerging economies would

sail along untouched. In fact, virtually every cancer metastasized into what turned out to be a massive adverse feedback loop. Meanwhile, policy makers were helpless to do anything but keep the patient alive on a cocktail of super low interest rates, liquidity programs and direct lending.

Looking forward, we acknowledge reasons for cautious optimism. The Fed and the Obama Administration are fully committed to reviving the economy and markets. Although the Federal funds rate target will be essentially zero for a prolonged period, the Fed has an arsenal of tools it is rolling out in order to resuscitate credit markets: the Fed is buying MBS, setting up a facility to buy ABS and other assets and is hinting at buying Treasuries. The Obama Administration is pushing for a colossal $775 billion stimulus package consisting of tax cuts, infrastructure spending, grants to state and local governments and so on. In addition, the Administration is looking at ways to mitigate foreclosures and strengthen the banking sector.

Nonetheless, we are somewhat pessimistic going forward. Policy action will certainly get some traction so the most likely path leads to some growth by the end of the year. However, we do not see asset markets mending quickly, nor do we see how the economy can achieve the kind of fast growth necessary to reduce unemployment and forestall deflation risks.

Europe

The European Economic and Monetary Union ("EMU") economic landscape changed dramatically in the second half of 2008 and recession fears took over the inflation fears which had characterized the first part of the year. In particular, the fall in foreign demand and the crisis of the financial markets are taking a toll on firms' investment decisions, which have started a rapid retrenchment. Q3 marked the beginning of the EMU recession, as GDP contracted for consecutive quarters. Between October and November, industrial production fell by another by 3.0%, paving the way for a very steep and unprecedented contraction of EMU GDP in the final quarter of 2008. Inflation receded very rapidly in the final part of the year due to the decline in commodity prices and the weakening of demand. Short and medium-term inflation expectations - which worsened in the summer as energy commodity prices rose - have fallen back drastically over the last few months.

After the co-ordinated rate reduction in October, the ECB lowered its policy rates further at both the November and the December meetings, down to 2.5% (followed by a further 50bps cut on 15th January 2009 to a rate of 2%). However, the ECB has been slow in acknowledging the gravity of the recession and its actions so far have been insufficient to counteract the economic slowdown in the EMU. The ECB still has the ability to use further monetary stimulus as a tool and may well be forced to do so.

UK

The UK growth and inflation picture continued to deteriorate in the final month of 2008, with no sign of any current or prospective improvement. There were sharp falls across the board, including PMIs, car registrations, mortgage approvals and labour market surveys. Of particular note were the unemployment data, which showed a drastic rise, taking place even earlier in this cycle than in previous recessions. Inflation continued to ease and, given the further sharp falls in commodity prices, the risks have rapidly shifted towards deflation. The severe deterioration in emerging markets and the Eurozone is triggering a second wave of weakness for the UK economy, with the initial wave driven by housing and construction related problems and their effect on financial services.

The BoE cut rates by a further 100bps in December (followed by a 50bps cut on 8th January 2009 to 1.5%), and further government measures were announced to improve banks' ability to lend. However, going forward there are several reasons for expecting a continuation of the severe pace of contraction which was seen towards the end of 2008: the construction downturn is still gathering pace, weakness in business investment has barely started and consumers have not yet responded significantly to the deteriorating labour market outlook and the need to restore balance sheets. Credit conditions tightened further in the fourth quarter and we

expect them to continue tightening.

Japan

In Japan, the economic slump is assuming dimensions which are much worse than during the deflation years. In particular, like in all other major Asian economies, exports collapsed in the second half of 2008. The sharp appreciation of the yen most likely compounded the dampening effect of falling world demand and eroding availability of credit available to finance global credit. The drop in exports has been quickly transmitted to corporate profits expectations and thus to firms' intentions to invest. Capital spending is on the verge of a big retrenchment. Until November, consumption was holding relatively better than corporate spending, as the labour market had not given up as of yet; however, it is likely only a matter of time before that happens. In all, Q4 08 GDP is shaping up as one of the weakest on record.

The BoJ cut rates from 0.30% to 0.10% in December and has announced forms of quantitative easing going into the new year.

Enquiries

Northern Trust International Fund Administration Services (Guernsey) Limited
Harry Rouillard +44 (0) 1481 74 5315

Your attention is drawn to the Disclaimer set out at the beginning of this document.

BH Macro Limited is a closed-ended investment company registered and incorporated in Guernsey on 17 January 2007 (Registration Number: 46235) with its registered office at Trafalgar Court, Les Banques, St. Peter Port, Guernsey GYI 3QL, Channel Islands.

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