BREVAN **HOWARD**

BH MACRO LIMITED

MONTHLY SHAREHOLDER REPORT:
DECEMBER 2012

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Your attention is drawn to the disclaimer at the beginning and end of this document

Important Legal Information and Disclaimer

BH Macro Limited ("BHM") is a feeder fund investing in Brevan Howard Master Fund Limited (the "Fund"). Brevan Howard Asset Management LLP ("BHAM") and Brevan Howard Capital Management LP (together with BHAM, "Brevan Howard") have supplied the information herein regarding BHM's and the Fund's performance and outlook. BHAM is authorised and regulated by the Financial Services Authority (the "FSA") in the United Kingdom.

This material constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 and the handbook of rules and guidance issued from time to time by the FSA (the "FSA Rules").

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Tax treatment depends on the individual circumstances of each investor in BHM and may be subject to change in the future. Returns may increase or decrease as a result of currency fluctuations.

You should note that, if you invest in BHM, your capital will be at risk and you may therefore lose some or all of any amount that you choose to invest. This material is not intended to constitute, and should not be construed as, investment advice. Potential investors in BHM should seek their own independent financial advice. BHAM neither provides investment advice to, nor receives and transmits orders from, investors in the funds to which this material relates nor does it carry on any other activities with or for such investors that constitute "MiFID or equivalent third country business" for the purposes of the FSA Rules.

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BH MACRO LIMITED

MONTHLY SHAREHOLDER REPORT: DECEMBER 2012

BREVAN HOWARD

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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 Securities Ltd.

Listings:
London Stock Exchange (Premium Listing)

NASDAQ Dubai - USD Class (Secondary listing)

Bermuda Stock Exchange (Secondary 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: $2,186 mm[1,2]

1. As at 31 December 2012 by BHM's administrator, Northern Trust.

2. This figure is net of the 2012 capital return.

Summary Information

BH Macro Limited NAV per share (as at 31 December 2012)

Share Class	NAV (USD mm)	NAV per Share
USD Shares	594.0	$20.06
EUR Shares	197.9	€20.21
GBP Shares	1,393.8	£20.70

BH Macro Limited NAV per Share % Monthly Change

USD Shares	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*

EUR Shares	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*

GBP Shares	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	2.91	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*

Source: Fund NAV data is provided by the administrator of the Fund, International Fund Services (Ireland) Limited. BHM NAV and NAV per Share data is provided by BHM's administrator, Northern Trust. BHM NAV per Share % Monthly Change is calculated by Brevan Howard. BHM 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 BHM. In addition, the Fund is subject to an operational services fee of 50bps per annum.

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.

* As at 31 December 2012.

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ASC 820 Asset Valuation Categorisation*

Brevan Howard Master Fund Limited

Unaudited Estimates as at 31 December 2012

	% of Gross Market Value
Level 1	58
Level 2	42
Level 3	0

Source: Brevan Howard

* These estimates are unaudited and have been calculated by Brevan Howard using the same methodology as that used in the most recent audited financial statements of the Fund. These estimates are subject to change.

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.

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Annual Manager Review: 2012

Manager Update – Brevan Howard Capital Management LP

In 2012 Brevan Howard continued to strengthen its global trading platform.

Brevan Howard expanded its investment teams in each of its global locations and, in addition, opened a new trading office in the United States. Brevan Howard US Investment Management, LP commenced activities in New York in July and has taken advantage of the significant trading talent currently available in the US market.

In total, 2012 saw a net addition of 38 investment professionals to the global team. This continued growth and diversification of trading staff has provided access to new ideas, asset classes and markets, serving to further enhance Brevan Howard's fund management offering to clients.

Brevan Howard now manages in excess of $39bn, including across the following trading funds:

Fund	Total investor assets US$ MM
Brevan Howard Asia Master Fund Limited	2,072
Brevan Howard CMBS Master Fund Limited	435
Brevan Howard Commodities Strategies Master Fund Limited	790
Brevan Howard Credit Catalysts Master Fund Limited	3,175
Brevan Howard Credit Value Master Fund Limited	202
Brevan Howard Emerging Markets Strategies Master Fund Limited	2,693
Brevan Howard Master Fund Limited	27,805
Brevan Howard Multi-Strategy Master Fund Limited	4,546
Brevan Howard Systematic Trading Master Fund Limited	994
Brevan Howard Investment Fund II – Macro FX Fund	940
Brevan Howard Investment Fund – Emerging Markets Local Fixed Income Fund	1,695

Source: BHAM; rounded to the nearest million; as at 31 December 2012.

From an operational perspective, the Manager continues to ensure that it has a robust governance and control framework capable of supporting its expanded operations and navigating the increasingly complicated regulatory environment.

During the year, the Manager devoted significant resources to satisfying new regulatory requirements on both sides of the Atlantic. This wave of new regulation will continue into 2013 making the operating environment for investment managers increasingly complex. Despite these challenges, the Manager believes it has built a platform and industry-leading support team that is capable of maintaining a consistently high standard of operational excellence.

2013 marks over 10 years of successful operation for Brevan Howard. The Manager's approach remains unchanged: to allocate fund assets opportunistically to Brevan Howard's global trading talent, whilst at all times preserving and strengthening its industry-leading operational and risk management framework.

The Manager thanks investors once again for their continued support.

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Annual Investment Manager Review: 2012

Brevan Howard Investment Products Limited currently manages the largest allocation of the Fund's assets. Alan Howard has provided the following year-end update to the Company:

BH Macro Limited (USD Shares) ended 2012 up 3.86% net of fees. Performance over the year was driven in large part by gains in interest rate and credit trading, offset to some extent by losses in 'stress' or 'risk off' themes such as long asset swaps and basis wideners.

The macro picture remained highly stressed throughout 2012, with concerns about peripheral Europe in the first half and the US fiscal cliff in the second half creating significant potential event risks. Meanwhile, economic fundamentals across the globe generally remained soft, at least until the fourth quarter, further exacerbating the possibility of some sort of market dislocation.

Offsetting and ultimately overwhelming these negatives, however, were central bank policies of close to zero interest rates and the provision of almost unlimited liquidity in key countries, as well as the anticipation of ever more urgent policy responses if circumstances deteriorated.

Against this backdrop of poor fundamentals and extraordinary monetary accommodation, markets reacted primarily to statements from various policy makers rather than to economic data. This new dynamic made the structuring of portfolios and the management of positions more difficult than usual. In particular, the performance of many 'risk-off' trades was significantly worse than anticipated during times of stress, which negatively impacted returns for the year as a whole.

In keeping with the uneasy equilibrium that existed between poor fundamentals and policy activism as we entered 2012, the Fund held a broad balance between 'risk-on' and 'risk off' exposures during the early part of the year. The Fund was short rates, long steepeners and long credit, expressing a 'risk on' view, while long volatility, money-market basis wideners and short EUR currency positions had a 'risk off' bias.

This positioning proved only modestly successful in the first quarter with gains in rates and credit trading being offset by losses in FX and equity trading.

The start of the second quarter saw a significant 'risk off' move as rising levels of European sovereign stress and an evident slow down in China were compounded by the failure of Greece's initial election to return a pro European government.

During this period of turmoil the Fund suffered its second largest drawdown since inception as several strategies incurred losses simultaneously. Global interest rates rallied, the European interest rate curve flattened, credit markets and peripheral European sovereign debt sold off as did equity and commodity markets. The asset swap and basis 'risk off' positions also lost money as markets came to the conclusion that central banks would not allow any renewed inter-bank funding stress. In response to these losses, risk was steadily reduced throughout the second quarter.

By the start of the third quarter it became obvious that policy makers, and in particular central banks, needed to react to the growing sense of crisis. Consequently the Fund was positioned around the theme of global monetary accommodation by being long European rates and long optionality on risk assets. This positioning proved profitable as the ECB cut rates, Mario Draghi made his now famous 'whatever it takes' comment and the Fed started QE3.

The net result of this positioning was a 7.8% gain in the NAV per share of BH Macro Limited (USD Shares) from the end of June to the end of December.

I am particularly pleased to report that this return was due to the contribution of a large number of traders rather than one or two large books; and that a meaningful part of this return was generated by newly recruited traders. I believe this result clearly indicates that our strategy of broadening and deepening the trading team over the last couple of years is paying dividends.

Our ability to generate over $3.3 billion of trading profits in the 6 months from July to December, in a well diversified manner across multiple funds, is a testament to the breadth and quality of the risk takers we have assembled at Brevan Howard. The ongoing reduction of bank trading activities has allowed us to continue to add talent in 2012, and we expect to continue hiring in 2013.

Looking forward to 2013, the tail risks which have haunted us for the last 5 years appear to have receded for the time being, but have by no means disappeared. A naïve faith in policymakers' ability to provide a perpetual put may yet prove to be a serious error; and, with interest rates stuck at zero, investors' ability to easily earn back losses remains severely impaired. Therefore, I continue to believe that it is imperative to maintain risk management discipline and to be continuously mindful of the potential for renewed systemic stress.

But even as we think carefully about the downside, we're more optimistic about the opportunity set for macro trading now than we have been for some time. The US, Europe, China and Japan all seem to be following the same game plan of unlimited monetary accommodation, some financial repression and a desire for currency debasement. In short, the world's major central banks are 'all in' with very aggressive non-traditional monetary policy having become the norm.

At the same time, investors have become desensitised to the seemingly broken record of the doomsayers' predictions of a financial apocalypse caused by a euro break-up, US fiscal and monetary irresponsibility, or a Chinese hard landing to name but a few scenarios.

Policy hyperactivity coupled with investor apathy could lead to significant and persistent price moves in multiple capital markets. Such an outcome naturally creates a very opportunity-rich environment for macro trading. The challenge of course is to be on the right side of those potential moves.

Our positioning as we start the year has a 'risk on' tilt coupled with a long exposure in rates. The Fund's overall risk level is moderate and we remain very tactical in our approach, as we have been since 2010.

Once again I want to thank our investors for continuing to support us throughout what at times was a difficult year. I look forward to reporting a successful 2013, which all of us at Brevan Howard will do our utmost to deliver.

Sincerely,

Alan Howard

BREVAN HOWARD

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Annual Performance Review: 2012

Performance by Asset Class

2012 performance comments by asset class for the Fund

Rates	Overall, the Fund's performance in interest rate trading was positive and was the main driver of the positive performance of the Fund. The Fund made gains in interest rate trading mainly in the third quarter and to lesser extent in the first and fourth quarters. The majority of the gains came from directional trading in EUR interest rate markets, which was profitable in every quarter. Additional gains came from directional positions in European government bonds, which were profitable in the third and fourth quarters. In particular, the Fund made profits during the third quarter (mostly in July) through long positions in medium-term maturities of the EUR interest rate markets. The Fund suffered small losses in relative value trading via EUR basis swaps during the first quarter and via swap spreads, mainly in USD, during the first two quarters. In addition, the performance of volatility trading strategies was slightly negative.
FX	The Fund had an average exposure of approximately 35% of NAV, with more risk being deployed in the first half of the year. Overall, the Fund's performance in FX was flat.
Equity	The Fund's equity risk was relatively small with an average gross exposure of approximately 10% of NAV. Equity trading activity suffered small losses mainly in the first two quarters of the year. Overall, the Fund's performance in equity trading was slightly negative.
Commodity	The Fund's commodity risk in 2012 was lower than in the previous year. The Fund suffered small losses in the second quarter and in the fourth quarter, mostly from long positions in gold and the energy complex. These losses were partially offset by small gains in the third quarter. Overall, the Fund's performance in commodity trading was slightly negative.
Credit	The Fund made consistent gains in credit trading throughout the year apart from a minor setback in May. The majority of the performance was generated in the CMBS and RMBS markets.

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Monthly, quarterly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by asset class

	Rates	FX	Commodity	Credit	Equity	Total
January 2012	0.96	-0.42	-0.03	0.58	-0.18	0.90
February 2012	-0.31	-0.07	0.15	0.39	0.10	0.25
March 2012	-0.08	-0.13	-0.21	0.17	-0.14	-0.40
April 2012	0.39	-0.45	-0.19	-0.09	-0.09	-0.43
May 2012	-2.72	1.71	-0.17	-0.48	-0.11	-1.77
June 2012	-1.01	-0.95	-0.00	0.12	-0.38	-2.23
July 2012	1.84	0.30	0.01	0.23	-0.02	2.36
August 2012	1.44	-0.54	-0.00	0.09	0.03	1.02
September 2012	0.76	0.24	0.23	0.41	0.35	1.99
October 2012	-0.25	-0.16	-0.19	0.30	-0.07	-0.36
November 2012	1.11	0.01	-0.14	0.06	-0.13	0.92
December 2012	0.81	0.44	-0.05	0.15	0.32	1.66
Q1	0.57	-0.63	-0.10	1.14	-0.23	0.75
Q2	-3.34	0.29	-0.36	-0.45	-0.58	-4.37
Q3	4.09	0.00	0.24	0.73	0.36	5.46
Q4	1.68	0.29	-0.38	0.51	0.12	2.22
2012	2.88	-0.05	-0.59	1.94	-0.34	3.86

Monthly and annual figures are calculated by Brevan Howard as at 31 December 2012, based on performance data for each period provided by the Fund's administrator, International Fund Services (Ireland) Limited.
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

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

	Rates	Vega	FX	Equity	Commodity	Credit	Total
January 2012	40	12	16	3	13	17	100
February 2012	26	10	23	5	18	18	100
March 2012	35	11	19	2	10	22	100
April 2012	37	9	18	7	9	19	100
May 2012	27	12	38	7	2	13	100
June 2012	42	11	18	6	3	19	100
July 2012	33	12	27	4	6	18	100
August 2012	51	12	11	2	10	15	100
September 2012	46	8	15	4	12	15	100
October 2012	55	10	11	2	5	16	100
November 2012	52	8	15	4	6	15	100
December 2012	43	7	16	16	5	13	100

Source: Brevan Howard. Data as at 31 December 2012.

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

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Performance by Strategy Group

Monthly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by strategy group

	Macro	Rates	FX	EMG	Equity	Commodity	Credit	Systematic	Total
January 2012	0.02	0.44	0.03	0.13	-0.10	0.11	0.25	0.01	0.90
February 2012	-0.09	-0.18	0.02	0.20	-0.02	0.07	0.19	0.06	0.25
March 2012	-0.35	0.01	-0.04	-0.11	0.02	-0.01	0.13	-0.05	-0.40
April 2012	-0.55	0.16	-0.00	0.04	-0.04	-0.04	0.02	-0.01	-0.43
May 2012	-0.24	-0.86	0.05	-0.56	-0.06	-0.07	-0.04	0.01	-1.77
June 2012	-0.91	-1.54	0.00	0.33	-0.03	-0.02	-0.00	-0.07	-2.23
July 2012	1.49	0.34	0.18	0.05	0.01	0.01	0.24	0.04	2.36
August 2012	0.45	0.48	-0.11	0.07	-0.03	0.17	0.02	-0.04	1.02
September 2012	0.87	0.36	-0.09	0.33	0.01	0.12	0.36	0.02	1.99
October 2012	-0.32	-0.17	-0.02	0.17	-0.03	-0.10	0.18	-0.06	-0.36
November 2012	0.22	0.34	0.01	0.35	-0.02	-0.03	0.05	-0.01	0.92
December 2012	0.76	0.38	0.00	0.41	0.03	-0.07	0.13	0.02	1.66
2012	1.34	-0.27	0.03	1.43	-0.25	0.14	1.54	-0.08	3.86

Monthly and annual figures are calculated by Brevan Howard as at 31 December 2012, based on performance data for each period provided by the Fund's administrator, International Fund Services (Ireland) Limited.

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Methodology and Definition of Monthly and Annual Contribution to Performance:

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)
"**Rates**": developed interest rates markets
"**FX**": global FX forwards and options
"**EMG**": global emerging markets
"**Equity**": global equity markets including indices and other derivatives
"**Commodity**": liquid commodity futures and options
"**Credit**": corporate and asset-backed indices, bonds and CDS
"**Systematic**": rules-based futures trading

Performance Review: December 2012

During the month, the Fund generated gains mainly on directional positions in European rates and macro FX trading. Further gains were registered on directional positions in European government bonds, macro equity trading and credit trading. Small losses were incurred in interest rates volatility trading.

Monthly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by strategy group

	Macro	Rates	FX	EMG	Equity	Commodity	Credit	Systematic	TOTAL
December	0.76	0.38	0.00	0.41	0.03	-0.07	0.13	0.02	1.66
Q1	-0.42	0.27	0.01	0.23	-0.09	0.16	0.58	0.02	0.75
Q2	-1.69	-2.23	0.05	-0.19	-0.13	-0.13	-0.02	-0.07	-4.37
Q3	2.84	1.18	-0.02	0.45	-0.01	0.31	0.62	0.03	5.46
Q4	0.66	0.54	-0.00	0.93	-0.02	-0.19	0.35	-0.05	2.22
YTD	1.34	-0.27	0.03	1.43	-0.25	0.14	1.54	-0.08	3.86

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"**Credit**": corporate and asset-backed indices, bonds and CDS
"**Systematic**": rules-based futures trading

Market Review and Outlook

US

2012 reaffirmed the power of policy makers to influence asset prices. At the start of 2012, the ECB's 3-year longer-term refinancing operations ("LTRO") stabilised the bank funding situation and reduced contagion beyond Europe's borders. In the middle of the year, the ECB and the Fed eased policy further. In the case of the ECB, President Draghi's commitment to do "whatever it takes" followed by the unveiling of the Outright Monetary Transactions ("OMT") programme and the Greek bailout finally turned around peripheral eurozone sovereign debt markets and largely eliminated fears about the euro breaking up. The Fed resumed aggressive asset purchases in September and promised to continue expanding its balance sheet until there is a substantial and sustained improvement in the labour market. Furthermore, the Fed said it would keep rates low for a considerable time after the recovery strengthens, which by its own estimate is sometime in 2015. Both policies were extraordinarily bold and innovative. First, never before has a central bank explicitly tied the expansion of its balance sheet to achieving a real-side goal such as lowering unemployment. Second, never before has a central bank promised to maintain easy money even after a recovery has taken hold. Finally, policy makers in Japan and the UK are getting in on the act. Newly elected Japanese Prime Minister Abe has promised more expansionary monetary and fiscal policy. In the UK, leaders have hinted at more expansionary monetary policy via a nominal GDP target even though inflation has been persistently above the Bank of England's target. Taken together, these policy actions have reduced tail risks and buoyed investor sentiment.

Meanwhile, the US real economy has been lukewarm. At the start of the year, the indicators were solid but a slowdown in the spring brought first-half growth below 2%. Activity perked up in the third quarter but the fourth quarter is shaping up to be approximately flat, which would bring second-half growth below 2% as well. A variety of special factors - the presidential election, the fiscal cliff negotiations, superstorm Sandy, a "fluky" November trade report - may encourage investors to look through the softness displayed at the end of last year.

The key at the start of 2013 is how big the fiscal drag will be and whether uncertainty about further rounds of negotiations on the debt limit and fiscal consolidation will keep households and businesses on the sidelines. In terms of the actual drag, the fiscal cliff deal eventually produced an outcome that was similar to our assumptions - subtracting, by our estimates, about 1-1/4% from real GDP in 2013. To our disappointment, the parties could not agree on a blueprint to reduce the federal deficit over the long term. If anything, the parties seem farther apart than before.

Looking forward, the economy should be governed primarily by two forces. First, we know the size of the fiscal drag and it is big. To put the figures in perspective, the economy's peak year-over-year growth rate in this expansion was 2.8% and estimates of the fiscal drag (composed of higher payroll taxes, spending cuts, higher taxes on the wealthy, etc.) subtract at least 1%. One worry is that this drag could be bigger as recent evidence suggests that fiscal multipliers are larger at the zero lower bound and for tax increases. Second, by contrast, the rest of the economy is making good progress on recovering from the Great Recession. Housing is advancing on all fronts—construction, sales and prices. Household deleveraging is closer to the end than the beginning. Business balance sheets are generally in good shape. US banks are optimistic and increasingly willing to expand credit. Although hard to quantify, perhaps one of the biggest positives is that we seem to have moved past financial market tail risks. As a recipe: if you take the sectors that were bad in the Great Recession (housing, household debt, and banks), repair them and then remove the financial market tail risks, that is a good combination. Unfortunately, we are still left with the fiscal drag and uncertainty about fiscal policy more generally that probably reduces overall real GDP growth to 2% or less in 2013. Such an outcome leads one to believe recent moderate gains in the labour market will continue and wage and price inflation will be very subdued. In other words, 2013 should bear a resemblance to 2012 despite the improved environment for risk taking and certain strong sectors of private demand.

EMU

The year 2012 will go into the history books as one in which the European policymakers began to take decisive action to stem the sovereign debt crisis. Late in 2011, faced by a bank wholesale funding crisis and an approaching wall of maturities in the first quarter of 2012, the ECB announced two unlimited 3-year long term refinancing operations ("LTRO") which were settled in early 2012. These operations, which allowed banks to roll over their maturities and obtain nearly EUR 600 bn of additional funds, were instrumental in supporting sovereign bond yields, especially in Spain and Italy, as well as preventing a credit crunch in the euro area at large.

However the favourable market impact of the LTROs gradually waned throughout the spring. In July, Draghi made a bold announcement in favour of the irreversibility of the euro and the ECB then announced a programme which, against appropriate conditionality, would allow the central bank to purchase government bonds as a backstop mechanism. The impact of the Outright Monetary Transactions ("OMT") bond purchase programme turned out to be more profound than that of the LTROs, as the markets gradually became convinced that the ECB was determined to "do whatever it takes" to protect the euro.

On the fiscal front, the Greek adjustment programme once again hit severe problems as economic growth plunged and fiscal targets were badly missed. Towards the end of the year it became clear that despite the large-scale private debt restructuring in 2011, additional debt adjustment would be necessary. In December 2012 the Greek government bought back over EUR 30bn worth of its own bonds at distressed prices and in this way managed to reduce its debt pile considerably. Additionally elsewhere in the euro area, including in some of the core countries, slowing growth and rising unemployment put significant strain on governments in the pursuit of their fiscal goals. In the course of the year, the EU Commission made several adjustments to growth targets to compensate for the larger than expected negative implications of fiscal austerity, including in Spain and in Portugal. 2012 saw some mixed progress on the institutional reform front, with European governments taking the first steps towards a pan-European banking union, the lack of which had been identified as one of the key design faults of the monetary union launched in 1998. There was an agreement to establish a new single banking supervisor for the largest euro area banks, under the auspices of the ECB, and plans to extend the unification for a eurozone bank resolution fund and deposit insurance schemes in 2013-14. In contrast, all discussions on the proposals for closer fiscal and political integration were postponed until the second half of 2013.

Towards the end of the year, survey data signalled some modest improvement in the underlying pace of contraction of the EMU economy. However, "hard" data remains weak, pointing at a disappointing outcome for fourth quarter GDP data which will be released in mid-February. In particular, in the fourth quarter the eurozone economy is anticipated to have contracted significantly not only in the troubled "periphery" but also in "core" countries, including Germany. In December, the pace of disinflation paused, the pan-EMU HICP increased at a pace of 2.2%, in line with November. Looking forward, price dynamics should continue to moderate as the widening output gap exerts downward pressure and the base effect of some past VAT increases wanes.

Although the financial markets in the euro area have started 2013 on a cautiously optimistic note, large downside risks remain. The year will see continuing progress and implementation on the banking union front and renewed debate about the fiscal and political unions. Any far-reaching decisions on these discussions will, however, be postponed until after the parliamentary elections in Germany, due in September. The economic outlook in the euro area remains highly uncertain. On the one hand, low interest rates, which are now also increasingly transmitted to the peripheral countries, should support growth by encouraging consumers and firms to borrow more and bring forward future consumption and investment. On the other hand, the ongoing de-leveraging by governments, banks and the corporate sector will suppress growth as well as demand for and supply of bank lending. Fiscal austerity in many countries is expected to reach higher levels than those seen in 2012. This is particularly the case for Greece, Ireland and Portugal, where the risk of social tensions remains high. Crucially, austerity measures will start biting harder in several countries which have thus far remained relatively immune to them, including France and the Netherlands. Electoral uncertainty is high in Italy where the new government needs to catch up with an ambitious reform agenda after the late February elections. Against this backdrop, the extent of the recovery of global demand, which is itself uncertain, will be an important factor in determining the activity outcome in the euro area in 2013, which should continue to contract overall as it did in 2012. The ECB monetary policy will remain accommodative. In the second half of the year, the governments in Ireland and Portugal are expected to start accessing the bond markets in anticipation of the end of their respective adjustment programmes which remain characterised by considerable risks and challenges.

UK

UK growth in 2012 is anticipated to be approximately zero. This result was driven via a combination of moderately positive consumption growth which was offset by a drag from investment and net trade. In 2013 growth is expected to be only somewhat better, helped by the fact that 2013 will not have the extra Jubilee-related holiday that depressed 2012. The key headwinds in 2013 are expected to remain the same: negative real wage growth, fiscal austerity and the weakness in eurozone growth. We expect that the UK's growth performance will therefore remain somewhere between

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the US (growth a bit below trend) and the eurozone (recession).

As previously discussed, the BoE launched a Funding for Lending Scheme to complement another round of QE last August. While banks have eased credit conditions, it does not mean that it will result in increased loan demand as shown by actual lending not yet rising. On the inflation front, the medium-term outlook remains benign, in the sense that there is no runaway inflation problem. Core CPI remains surprisingly resilient above 2%, despite the weakness of the economy. However, the downward pressure from spare capacity on prices is clear in the labour market, where wage inflation remains at or below 2%. Our growth and inflation forecasts therefore imply that the Bank of England will continue to be faced with the dilemma of disappointing growth and inflation that is somewhat resilient. In the first part of 2013, this growth-inflation dilemma should result in an extension of the pause in QE which started in November 2012. As the year progresses, the likelihood of further monetary stimulus should rise. Fiscal policy has continued not to waver from the mantra of "sticking with the austerity plan" and we expect this strategy to continue into 2013.

Japan

Japan is entering 2013 with the Liberal Democratic Party ("LDP") having secured an overwhelming political mandate to '"prime the monetary and fiscal pumps" at the December elections. The Bank of Japan confirmed that it will embrace a 2% inflation target and committed to an open-ended "Asset Purchase Plan" after the current round of asset purchases end in Jan 2014. For its part, Prime Minister Abe's administration has unveiled a supplementary budget worth JPY10 trillion (equivalent to 2.0% of GDP) with half of the spending in public works. The yen softness that the accommodative policy plans have engendered should help Japanese corporations reclaim some of the competitiveness conceded in the post-Lehman financial crisis era. Yet, beyond the brighter outlook for growth in the foreseeable future, several uncertainties and drags remain. First, the pressing need for fiscal consolidation and the reining in of public debt necessitates that the government adheres to its timetable for a consumption tax hike in April 2014. Second, the manner in which the LDP manages Japan's territorial disputes with China, will also influence the negotiations of critical free trade agreements.

In December, indicators of activity remained prevalently negative, as the release of industrial production data showed a meaningful contraction, significantly worse than expected and the Composite PMI fell back, from 49.9 to 49.3 primarily driven by the manufacturing sector and, in particular, by reduced exports. In all, GDP is expected to have contracted further in the last quarter of 2012, although at a slower pace. Looking forward, the above-mentioned fiscal plan and depreciation of the yen should help short term prospects. Needless to say, observed data did not show any improvement on the CPI front, which still showed meaningful deflation.

China

China GDP data is expected to show growth has slowed to about 7.7% year-on-year in 2012, from 9.3% year-on-year in 2011, dragged down by sluggish external demand and weak construction activity in the first part of 2012. Growth has recovered somewhat since the summer, thanks to easier credit conditions and a recovery in the property sector. Going forward, growth in 2013 should be supported by infrastructural investments and a continuation of the recovery in construction activity. Inflation was mild in 2012, at 2.7% year-on-year, down from 5.4% year-on-year in 2011. In 2013 CPI dynamics should accelerate to 3.0% or more year-on-year. The monetary policy stance should remain mostly unchanged, while fiscal policy is likely to continue to be eased.

The 2013 GDP target is poised to be maintained at 7.5%, as Chinese leaders aim to boost the quality of growth.

In December, the China official PMI data showed a continuation of the mild recovery in economic activity. The manufacturing PMI stood at 50.6 in December, unchanged from November and above the 50 threshold for the third consecutive month. The non-manufacturing PMI rose 0.5 points to 56.1, the highest level since August 2012. In particular, the Construction PMI component rose by 0.6 points to a high 61.9, while the services component rose by 0.5 points, to 54.7 in December. Overall, Chinese growth accelerated in the fourth quarter relative to the third quarter. Inflationary pressures have resumed along with the economic recovery and inflation expectations are increasing based on the People's Bank of China's survey. Raw food price rose sharply in December, partly due to the unseasonal cold weather. Producer prices are on an upward trend as well, driven by price rises in upstream mining products. New home prices continue to rise too, for the seventh consecutive month.

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Risk Factors

Acquiring shares in BHM may expose an investor to a significant risk of losing all of the amount invested. Any person who is in any doubt about investing in BHM (and therefore the Fund) should consult an authorised person specialising in advising on such investments. Any person subscribing for shares in BHM must be able to bear the risks involved. These include, among others detailed in BHM's Prospectus, the following:

• 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 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.

• There are restrictions on transferring interests in the Fund.

• 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 is 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.

• The Fund may make investments in securities of issuers in emerging markets. Investment in emerging markets involve particular risks, such as less strict market regulation, increased likelihood of severe inflation, unstable currencies, war, expropriation of property, limitations on foreign investments, increased market volatility, less favourable or unstable tax provisions, illiquid markets and social and political upheaval.

The above summary risk factors do not purport to be a complete description of the relevant risks of an investment in shares in BHM and therefore reference should be had to BHM's Prospectus and related offering documentation for a complete description of these and other relevant risks.