BREVAN HOWARD

# BH MACRO LIMITED

## MONTHLY SHAREHOLDER REPORT

## JUNE 2011

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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS

BREVAN HOWARD

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## 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.

## Summary Information

### BH Macro Limited NAV per share (estimated as at 30 June 2011)

| Share Class | NAV (USD mm) | NAV per Share |
|---|---|---|
| USD Shares | 552.0 | $17.66 |
| EUR Shares | 329.0 | €17.77 |
| GBP Shares | 1,060.6 | 1818p |

### 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 | -0.53* | | | | | | | 2.46* |

| 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 | -0.45* | | | | | | | 2.81* |

| 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 | -0.52* | | | | | | | 2.55* |

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 International Fund Administration Services (Guernsey) Limited. BHM NAV per Share % Monthly Change is calculated by BHAM. 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.

* Estimated as at 30 June 2011.

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## ASC 820 Asset Valuation Categorisation*

### Brevan Howard Master Fund Limited

**Unaudited Estimates as at 30 June 2011**

| | % of Gross Market Value |
|---|---|
| Level 1 | 61 |
| Level 2 | 39 |
| Level 3 | 0 |

Source: BHAM

* These estimates are unaudited and have been calculated by BHAM 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.

## Organisational Update

We wish to inform you that James Vernon has decided to leave Brevan Howard in September to pursue other interests. James was one of the founders of Brevan Howard and as COO has played a valuable part in building the business' global platform and infrastructure. James will continue to act as a non-executive board member of Brevan Howard's non-UCITS funds. We thank him for his contribution and wish him well in his future endeavours.

## Performance Review

During the month, the Fund made profits mainly in USD interest rates trading. These gains were more than offset by losses in Commodities, FX and Credit.

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

| | Total | Macro | Rates | FX | EMG | Equity | Commodity | Credit | Systematic |
|---|---|---|---|---|---|---|---|---|---|
| June | -0.53 | -0.76 | 1.06 | -0.21 | 0.02 | -0.05 | -0.16 | -0.39 | -0.05 |
| Q1 | 1.95 | 0.91 | -0.13 | 0.06 | 0.33 | -0.05 | -0.04 | 0.88 | 0.00 |
| Q2 | 0.50 | -1.23 | 2.13 | -0.21 | 0.15 | -0.14 | 0.02 | -0.24 | 0.01 |
| YTD | 2.46 | -0.34 | 2.03 | -0.15 | 0.48 | -0.19 | -0.02 | 0.64 | 0.01 |

Monthly, quarter-to-date and year-to-date figures are estimated by BHAM as at 30 June 2011, based on total performance data for each period provided by BHM's Administrator, Northern Trust International Fund Administration Services (Guernsey) Limited.

**Methodology and Definition of Monthly 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

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

## Market Review and Outlook

## Market Commentary

### US

In June, the incoming macro data provided confirmation that the economy experienced a rough patch in the first half of the year. Looking forward, however, there are reasons to expect a slightly better performance in the second half of the year.

For the last two months, real consumption expenditures have declined. Nominal spending has slowed to a crawl and the increase in inflation, primarily due to higher energy prices, has put a further dent in real spending. Some of the tailwinds driving the consumer are fading. The majority of the fiscal stimulus is behind us, employment gains are slowing and wealth effects are stagnant. In addition, the housing market continues to be a major obstacle. Nevertheless, the recent decline in energy prices will put some disposable income back in the pockets of consumers in the second half of the year.

Manufacturing activity has slowed, with the auto sector having suffered from supply chain disruptions as a result of the tragic events in Japan. More generally, the pace of activity apart from the auto sector has been tempered as the global expansion matures and there is little buoyancy from domestic aggregate demand. Going into July, the trend for growth is likely to be heavily influenced by a rebound in auto production. We estimate that the return to more normal production will add almost one percentage point to third-quarter real GDP growth. However, this would be a one-off boost rather than a sustained increase in consumer demand for durable goods.

The labour market has gone from being a relatively bright spot in the macro picture to a disappointment. Initial claims for unemployment insurance are stubbornly elevated above 400,000 per week and hiring slowed in the most recent payrolls report. Finally, the unemployment rate has increased above 9% again.

Inflation is as much of a threat to the economy as slow growth. Headline inflation is rising by approximately 3.5% and core inflation has ticked up to 1.5%. However, going forward the inflation threat should recede somewhat. The decline in energy prices is already putting downward pressure on headline inflation and core inflation has risen due to the pass-through from energy-intensive categories such as airfares and temporary supply constraints in new and used autos.

The financial markets captured most of the headlines in June as the crisis in Greece provided impetus for a global flight to quality. In other developments, the Federal Reserve brought QE2 to an end as planned and will now slow the buying to only $10 to $15 billion a month to reinvest MBS and agency maturities from an average of $100 billion a month under QE2, i.e. more than 80% of net Treasury coupon issuance since mid-November 2010.

### EMU

In June, market attention remained focussed on the crisis in Greece. The review by the EU/IMF of the Greek consolidation programme and the clear funding gap for 2012 kept the markets on tenterhooks. The situation escalated in the middle of the month, when Greece's prime minister announced a reshuffle of the government following

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political tensions on the new consolidation measures requested by the EU/IMF. Eventually, the EU/IMF agreed to the release of the fifth tranche of loans to Greece after the new austerity measures were approved by parliament. The release of the next tranche of loans to Greece in September is set to represent another hurdle. In the meantime, the situation for the whole of the EMU sovereign debt market remains extremely tense.

On the activity side, data releases provided confirmation that the EMU cycle is losing momentum. The cycle was already reaching a mature stage when it faced a number of headwinds due to the appreciation of the euro, the slowdown of domestic demand, the fiscal consolidation, the rise in energy prices and the impact of the Japanese disaster. The spike in energy prices and the shock from the tragic events in Japan are beginning to gradually unwind, but the other headwinds are intensifying. The European Central Bank ("ECB") has to run a delicate balancing act, trying to reconcile the need for higher rates in the core countries, especially in Germany, with the needs of the peripheral economies, where both the slowdown and the financial tensions are becoming more acute. Despite the tension from the sovereign situation, at its meeting at the beginning of June, the ECB pre-announced a rate hike for July by moving to "strong vigilance mode". The heralded 25bps rate hike was indeed enacted at the policy meeting in July.

## UK

The outlook for the UK continues to be one of below-trend growth and persistently high inflation. The household sector continues to be the most vulnerable part of the economy as fiscal austerity measures, negative real income growth, stagnating house prices and high unemployment generate fierce headwinds. In addition, it appears that consumption is likely to be flat or falling throughout this year. We expect that the low point in the growth momentum was reached in the second quarter, so we should see a modest improvement in the months ahead. This improvement is largely due to the recovery in car production and the additional holiday effect in April.

Meanwhile, the outlook continues to signal persistently high inflation (above 4%) for the rest of this year, underpinned by the VAT hike, higher energy prices and the continued pass-through from a weak sterling. Core inflation adjusted for VAT, is running at a pace of 2.0-2.5%. This is not rampant inflation, but resilient nevertheless for an economy that suffered such a deep recession. Recent surveys of inflation expectations have been somewhat mixed, with some remaining stable after having fallen back from their peak earlier this year and others rising again. Indicators of wage inflation remain low relative to history and show no sign of either accelerating or decelerating. The Bank of England remains firmly on hold and the Monetary Policy Committee is split with regards to the next move interest rates are likely to take. The bar for further easing seems high this year, given the concerns about the anchoring of inflation expectations, with inflation having equalled or exceeded the target for 85% of the time during the last five years.

## Japan

Activity in Japan is gradually returning to pre-disaster levels, although the process is still far from complete. Indeed, although industrial production rebounded in May, the expectations of firms for June and July production, although still positive, have been revised downwards from the previous month. Furthermore, PMI surveys both in manufacturing and services have not materially breached the 50 threshold. In particular, on the manufacturing side, the PMI has actually reversed some of the gains made in May, falling from 51.3 to 50.7, with orders only just at 50, signalling that the pace of the rebound is far from being sustained. Car production has restarted in the majority of factories, but some headwinds to overall production persist, one of which is the availability of energy supplies.

### China

In June, the China HSBC manufacturing PMI fell further, from 51.6 to 50.1. New orders fell by even more, from 52.6 to 50.4, signalling that IP growth trends are still moderating, as indicated by 3m/3m changes in actual production. Along with slower economic activity inflationary pressures at the origin for industrial prices are easing. However, surging food prices, especially for pork meat, imply that headline CPI inflation remains stubbornly high. The CPI for June hit a new year-high, surging above 6% year-on-year. Policy-wise, authorities have shown no intention to ease monetary conditions in the near-term. On the contrary, in response to the elevated inflationary pressures at the consumer level, the People's Bank of China hiked the Reserve Requirement Ratio further, by 50bps in June, and at the beginning of July authorities hiked official rates by another 25bps.

### Enquiries

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Risk Factors

Acquiring shares in the Company 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 the Company (and therefore the Fund) should consult an authorised person specialising in advising on such investments. Any person subscribing for Shares must be able to bear the risks involved. These include, among others detailed in the Company'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 will invest in illiquid securities.

• Past results of the Funds' investment manager is not necessarily indicative of future performance of the Fund, and the Funds' performance may be volatile.

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

• The investment manager has total investment and trading authority over the Fund, and the Fund is dependent upon the services of the investment manager. The use of a single advisor could mean lack of diversification and, consequently, higher risk.

• 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 Manager's incentive compensation, fees and expenses may offset the Funds' 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 Funds' 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 Interests and therefore reference should be had to the Company's Prospectus and related offering documentation for a complete description of these and other relevant risks.