

BREVAN HOWARD

**BH MACRO LIMITED**  
**MONTHLY SHAREHOLDER REPORT**  
**OCTOBER 2009**  
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PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS

### Summary information

#### BH Macro Limited NAVs per share (as at 30 October 2009)

Shares Class	NAV (USD mm)	NAV per Share
USD Shares	722.0	\$16.96
EUR Shares	453.6	€17.00
GBP Shares	701.3	1741p

#### 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			17.17

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			17.48

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			17.06

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 are calculated 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. In addition, BHMf is subject to an operational services fee of 50bps per annum.

\*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.

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### FAS 157 Asset Valuation Categorisation<sup>1</sup>

#### Brevan Howard Master Fund Limited (the "Master Fund")

Unaudited Estimates as at 30 October 2009

	% of NAV (Gross Market Value)
Level 1	56%
Level 2	44%
Level 3	0%

Source: BHAM

<sup>1</sup>These estimates are unaudited and have been calculated by BHAM using the same methodology as that used for the 2008 audited financial statements of BHMf. 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.

**Investment Manager Update**

*Brevan Howard Asset Management LLP ("BHAM") currently manages the largest allocation of the Master Fund's assets. BHAM has provided the following update:*

Following his return from sabbatical last year, Jean-Philippe Blochet has decided to cease to be an active member of Brevan Howard Asset Management LLP. Jean-Philippe has made a valuable contribution to the success of Brevan Howard and we wish him well in his future endeavours

**October 2009 Performance Review**

Brevan Howard Master Fund Limited ("BHMF") generated positive P/L across a range of strategies during the month, including fixed income directional, volatility and relative value trades. BHMF also made gains in FX, credit and, to a lesser extent, equities. Small losses were incurred in fixed income curve trades and commodities.

**Monthly contribution (%) to basic performance by asset class:**

	Total	Interest Rates	FX	Equity	Commodity	Credit	Other
Oct 2009	1.07	0.36	0.50	0.07	-0.08	0.22	0.01

Source: BHAM

- Trading in BHMF is managed on a strategy basis rather than on an asset class basis. The data in the table above does not make this distinction and instead reflects approximate gains and losses of the asset classes that comprise BHMF's strategies. Investors should therefore be circumspect as to any inferences that they draw from this data.

- 'Other' includes non-trading items such as treasury returns.

**Outlook**

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

Data received during October pointed to the end of the recession. Although payroll employment continued to fall and the unemployment rate ticked up, real GDP reportedly rose 3.5% in Q3, led by improved housing activity, inventory restocking and fiscal stimulus. Housing is poised to continue to improve from its ultra-low base. However, the inventory cycle and fiscal stimulus will add less to GDP growth going forward. Thus, other forces will need to assume leadership for the economy to advance at a brisk enough pace to take up the slack in the economy. With household balance sheets still in need of repair, risk averse businesses, and a moribund banking system, we remain skeptical about the prospects for sustained above-trend growth.

For the past six months, risk assets have traded in line with the improvement in the second derivative of the data and then the first derivative of the data. October saw an end to that trend with risk assets showing fatigue. As the momentum in the data faded, investors sold stocks, fixed income and the USD.

Inflation news was mixed. On the one hand, core inflation, as well as food inflation, is falling. On the other hand, the jump in energy prices combined with base effects virtually guarantees a sizeable acceleration in headline prices by the end of the year. With the dollar falling and investors buying gold, markets may experience some inflation jitters in the coming months despite disinflationary underlying trends. At this juncture, inflation does not seem like a big enough risk to threaten the Fed's extraordinarily accommodative policy. However, we have yet to see a real test of their resolve.

**Europe**

In the EMU, the data released in October confirmed that activity returned to growth in Q3 09, marking the end of the recession. In addition, business survey data showed that the EMU recovery is gaining traction and is becoming more evenly spread across production sectors. This mitigates some of the concerns on the possible negative impact of the end of some government stimulus measures (e.g. scrapping incentives

for car purchases).

Indications from the household sector are more mixed. EMU households have continued to take advantage of the generous government incentives for car purchases. However, excluding cars, retail sales contracted slightly in Q3. Consumer sentiment is improving, but remains low by historical standards. The labour market situation continues to be challenging, as the unemployment rate is at the highest level since the launch of the euro.

The ECB October meeting was uneventful. The ECB maintained the weak macro outlook presented in the September projections and is still concerned about the sustainability of the ongoing recovery. However, the tone of the ECB policymakers is slowly changing, becoming marginally more upbeat on the economy and starting to indicate that the moment for phasing out of the monetary policy stimuli is nearing.

#### **UK**

In the UK, October saw a further improvement in economic activity based on a reading of the surveys. However, the official data surprised on the downside: GDP data in Q3 showed another quarter of contraction. It is a challenge for investors and policy makers to disentangle these conflicting signals. On balance, a large part (but not all) of the weakness in official data should be ascribed to noise, either to be revised away later, or to be followed by offsetting upward moves in the following period. This leaves us with a picture of an economy that has started its recovery, driven to a large extent by fiscal and monetary stimulus, and benefiting from a low exchange rate.

The likely pace of the recovery will depend not only on the degree to which stimulus is gradually removed next year, but also on how quickly households and banks continue to repair their balance sheets. A more gradual pace of repair from now would be consistent with a healthy pace of economic recovery, while further near-term bank deleveraging and increases in the household savings rate would result in anaemic growth. For now, rising consumer confidence and some resumption of household spending suggests we may be on a more favourable growth path, justifying to some extent the revaluation of risky assets. But this is a vulnerable equilibrium, and we could quickly find ourselves back on a rising savings path if confidence eases back; which would bring about a correction in wealth that would make the rise in the savings rate self-reinforcing.

On the inflation side, official wage data continues to be very weak, but survey measures of pay, and producer price inflation, are less benign. The interplay between a large output gap on one side, and rising energy prices and ongoing pass-through from a weak exchange rate on the other, continues. Given a more balanced set of risks around the medium-term inflation outlook, and the extent of stimulus already injected, monetary policy makers are becoming more cautious about adding further stimulus.

#### **Japan**

In Japan, business and household surveys stabilized in October, around the rather elevated levels reached in September, following an impressive improvement in the previous months. Industrial production and exports continued to expand at a brisk pace in September. Still, the level of production remains far below its 2008 peak and the amount of unused resources is particularly elevated. Importantly, there are signs that investment activity is coming back, which should benefit Japanese producers of

capital goods.

Consumer spending remains satisfactory, although the main support is currently provided by the government stimulus. Government measures will remain necessary in the near-term, as workers' income keeps contracting due to high unemployment and falls in earnings. The elevated level of unused resources, of both physical and human capital, is maintaining a deflationary environment for the economy, as displayed by the ongoing drop in consumer and producer prices.

**Enquiries**

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