

BREVAN HOWARD

Brevan Howard Master Fund Limited
Annual Audited Consolidated Financial Statements 2017
(with Independent Auditors' Report thereon)

ANNUAL AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
31 December 2017

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Independent Auditors' Report to the Directors and Shareholders on the Consolidated Financial Statements of Brevan Howard Master Fund Limited

We have audited the accompanying consolidated financial statements of Brevan Howard Master Fund Limited (the "Master Fund"), which comprise the consolidated statement of assets and liabilities, including the consolidated condensed schedule of investments as of 31 December 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

This report is made solely to the Directors and Shareholders, as a body, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Directors and Shareholders those matters we are required to state to them in an auditors' report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors and Shareholders, for our audit work, for this report, or for the opinions we have formed.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Master Fund as of 31 December 2017, and the results of its consolidated operations, the changes in its consolidated net assets and its consolidated cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



21 March 2018
George Town, Cayman Islands

Consolidated Statement of Assets and Liabilities

31 December 2017

	2017 US\$'000
Assets	
Investments, at fair value (cost: US\$8,508,314) (Note 3,5)	8,745,677
Redemptions receivable from affiliated funds	70,000
Cash (Note 2)	17,357
Investments purchased under agreements to resell (cost: US\$2,973,723) (Note 7)	3,018,829
Dividends and interest receivable	18,342
Due from broker (Note 2)	5,827,040
Other assets	1,084
Total assets	17,698,329
Liabilities	
Investments sold short, at fair value (proceeds: US\$3,034,309) (Note 3)	3,380,892
Investments sold under agreements to repurchase (proceeds: US\$3,369,846) (Note 7)	3,404,904
Accounts payable and accrued expenses (Note 4,5,6)	4,211
Dividends and interest payable	34,071
Redemptions payable (Note 2)	456,944
Due to broker (Note 2)	5,466,322
Total liabilities	12,747,344
Non-controlling interest (Note 2)	131,645
Net assets (Note 8)	4,819,340
Net asset value per share	
US Dollar Class A	US\$4,942.25
US Dollar L.P. Class A	US\$4,438.40
Euro Class A	€4,725.48
Sterling Class A	£5,391.92
Yen Class A	¥15,531.04
Australian Dollar Class A	AUD 1,756.14
Brazilian Real Class A	BRL 2,762.87
Canadian Dollar Class A	CAD 1,451.18
Norwegian Krone Class A	NOK 1,535.96
US Dollar Class B	US\$2,786.39
Sterling Class B	£2,901.80
US Dollar Class W	US\$1,030.01
US Dollar L.P. Class W	US\$973.47
Euro Class W	€950.28
Sterling Class W	£962.34
Yen Class W	¥1,001.16
US Dollar Class Z	US\$145.54
Euro Class Z	€142.21
Sterling Class Z	£146.02
Yen Class Z	¥13,965.40

Cost and proceeds are presented in US\$'000.

See accompanying notes to the Consolidated Financial Statements.

Signed on behalf of the Board:

Dennis Hunter
Director

Karla Bodden
Director

21 March 2018

Consolidated Condensed Schedule of Investments

31 December 2017

Cost is presented in US\$'000	Fair Value US\$'000	% of Net Assets
Long portfolio		
Equities		
Ireland (cost US\$738)		
Funds	728	0.02
United States (cost US\$3,290)		
Financial	17,137	0.35
Funds	422	0.01
	17,559	0.36
Total equities (cost US\$4,028)	18,287	0.38
Fixed income securities		
Argentina (cost US\$6,584)		
Financial	6,755	0.14
Belgium (cost US\$6,214)		
Government	6,214	0.13
Cayman Islands (cost US\$19,246)		
Asset Backed Securities	0	0.00
Industrial	80	0.00
	80	0.00
Finland (cost US\$189,846)		
Government	190,133	3.95
France (cost US\$332,783)		
Government		
	31,100 FRTR 0.8% 05/25/2028	0.77
	244,000 FRTR 1.0% 05/25/2027	6.26
	338,849	7.03
Germany (cost US\$253,718)		
Financial	58,310	1.21
Government	200,106	4.15
	258,416	5.36
Ireland (cost US\$20,307)		
Mortgage Backed Securities	227	0.00

Consolidated Condensed Schedule of Investments continued

31 December 2017

Cost is presented in US\$'000		Fair Value US\$'000	% of Net Assets
Long portfolio (continued)			
Fixed income securities (continued)			
Italy (cost US\$1,367,123)			
Government			
	63,937 BTPS 0.7% 10/15/2023	74,720	1.55
	50,000 BTPS 0.9% 08/01/2022	60,292	1.25
	21,158 BTPS 1.0% 03/15/2023	25,373	0.53
	32,554 BTPS 1.5% 06/01/2025	38,890	0.81
	45,198 BTPS 1.6% 06/01/2026	53,513	1.11
	197,306 BTPS 1.9% 05/15/2024	244,579	5.07
	188,700 BTPS 2.1% 08/01/2027	227,736	4.73
	300,000 BTPS 2.2% 06/01/2027	367,839	7.63
	81,163 BTPS 2.3% 09/01/2036	90,352	1.87
	123,810 BTPS 2.7% 03/01/2047	136,269	2.83
	57,928 BTPS 2.8% 03/01/2067	60,599	1.26
	50,000 BTPS 3.5% 03/01/2030	67,469	1.40
		1,447,631	30.04
Japan (cost US\$1,247,583)			
Government			
	31,000,000 JTDB 0.0% 01/12/2018	274,624	5.70
	1,000,000 JTDB 0.0% 01/15/2018	8,859	0.18
	20,560,000 JTDB 0.0% 01/22/2018	182,157	3.78
	31,000,000 JTDB 0.0% 01/29/2018	274,645	5.70
	25,000,000 JTDB 0.0% 02/13/2018	221,501	4.60
	25,000,000 JTDB 0.0% 02/26/2018	221,513	4.60
	7,600,000 JTDB 0.0% 03/26/2018	67,349	1.39
		1,250,648	25.95
Jersey (cost US\$71)			
Asset Backed Securities			
		0	0.00
Lebanon (cost US\$13,914)			
Government			
		14,105	0.29
Luxembourg (cost US\$11,238)			
Asset Backed Securities			
		0	0.00
Mortgage Backed Securities			
		703	0.01
		703	0.01
Mexico (cost US\$503)			
Mortgage Backed Securities			
		0	0.00
Netherlands (cost US\$413,258)			
Government			
	310,118 NETHER 0.0% 01/15/2022	374,384	7.77
	45,000 NETHER 0.0% 01/15/2024	53,518	1.11
Industrial			
		727	0.02
Mortgage Backed Securities			
		40	0.00
		428,669	8.90

Cost is presented in US\$'000	Fair Value US\$'000	% of Net Assets
Long portfolio (continued)		
Fixed income securities (continued)		
South Africa (cost US\$11,277)		
Government	7,825	0.16
Utilities	4,307	0.09
	12,132	0.25
Spain (cost US\$204,741)		
Government	208,091	4.32
Turkey (cost US\$5,947)		
Financial	5,366	0.11
United Kingdom (cost US\$110,599)		
Government	88,630	1.84
Mortgage Backed Securities	560	0.01
	89,190	1.85
United States (cost US\$3,262,620)		
Asset Backed Securities	421	0.01
Government		
	469,000 B 0.0% 01/04/2018	9.73
	446,000 B 0.0% 01/11/2018	9.25
	390,000 B 0.0% 01/18/2018	8.09
	482,500 B 0.0% 01/25/2018	10.00
	229,000 B 0.0% 02/01/2018	4.75
	130,000 B 0.0% 03/29/2018	2.69
	250,000 T 1.9% 12/31/2019	5.19
	63,200 T 2.3% 10/31/2024	1.29
	2,400 T 2.8% 11/15/2047	0.05
	374,000 TF 1.6% 07/31/2018	7.77
	402,000 US 0.0% 03/22/2018	8.32
Mortgage Backed Securities	8,031	0.17
	3,243,766	67.31
Total fixed income securities (cost US\$7,477,572)	7,500,975	155.64
Private placement		
Italy (cost US\$4,415)		
Financial	0	0.00
Total private placement (cost US\$4,415)	0	0.00

Consolidated Condensed Schedule of Investments continued

31 December 2017

Cost is presented in US\$'000		Fair Value US\$'000	% of Net Assets
Long portfolio (continued)			
Interest rate guarantee options (cost US\$113,518)			
EUR	termination dates through May 2021	53,111	1.10
USD	termination dates through April 2022	10,494	0.22
		63,605	1.32
Forward rate agreements			
USD	termination dates through March 2019	4,582	0.10
ZAR	termination dates through April 2019	8,868	0.18
		13,450	0.28
Cross currency swaps			
EUR/USD	termination dates through March 2019	128	0.00
JPY/USD	termination dates through December 2019	1,689	0.04
RUB/USD	termination dates through December 2018	69	0.00
TRY/USD	termination dates through June 2019	800	0.02
USD/CLP	termination dates through March 2019	156	0.00
		2,842	0.06
Interest rate swaps			
AUD	termination dates through December 2027	1,678	0.03
BRL	termination dates through January 2021	46	0.00
CAD	termination dates through June 2047	3	0.00
CHF	termination dates through December 2019	16	0.00
CLP	termination dates through September 2020	318	0.01
COP	termination dates through September 2019	96	0.00
CZK	termination dates through July 2019	1,445	0.03
EUR	termination dates through December 2047	28,051	0.58
GBP	termination dates through December 2047	19,077	0.40
HUF	termination dates through December 2027	1,662	0.03
ILS	termination dates through June 2027	1,340	0.03
JPY	termination dates through February 2041	3,775	0.08
KRW	termination dates through December 2019	2,579	0.05
MXN	termination dates through September 2037	4,519	0.10
NZD	termination dates through August 2021	206	0.00
RUB	termination dates through September 2019	204	0.00
USD	termination dates through January 2048	25,920	0.54
ZAR	termination dates through December 2027	1,259	0.03
		92,194	1.91
Credit default swaps (cost US\$9,913)			
USD	termination dates through October 2052	2,964	0.06
Swaptions (cost US\$225,779)			
EUR	termination dates through November 2026	26,431	0.55
GBP	termination dates through July 2018	8,120	0.17
JPY	termination dates through June 2021	40,013	0.83
SEK	termination dates through January 2018	155	0.00
USD	termination dates through December 2019	34,425	0.71
		109,144	2.26

Cost is presented in US\$'000		Fair Value US\$'000	% of Net Assets
Long portfolio (continued)			
<i>FX contracts</i>			
AUD/USD	termination dates through March 2018	1,474	0.03
BRL/USD	termination dates through April 2018	1,910	0.04
CHF/USD	termination dates through July 2018	7,384	0.15
CNH/USD	termination dates through January 2019	21,190	0.44
EUR/PLN	termination dates through March 2018	1,857	0.04
EUR/USD	termination dates through September 2018	13,264	0.28
GBP/USD	termination dates through March 2018	3,359	0.07
INR/USD	termination dates through October 2019	3,002	0.06
JPY/USD	termination dates through March 2018	4,230	0.09
MXN/USD	termination dates through November 2018	53,414	1.11
RUB/USD	termination dates through March 2018	1,727	0.03
TRY/USD	termination dates through December 2018	134,982	2.80
ZAR/USD	termination dates through March 2018	2,177	0.04
Other	termination dates through December 2020	4,657	0.10
		254,627	5.28
<i>Exchange traded futures</i>			
30 Day free	termination dates through October 2018	2,901	0.06
Canadian 3M	termination dates through December 2018	2,033	0.04
Euribor	termination dates through March 2021	8,982	0.19
Euro	termination dates through March 2019	23,010	0.48
Eurodollar	termination dates through September 2021	15,664	0.33
TOPIX	termination dates through March 2018	4,018	0.08
Other	termination dates through June 2021	4,618	0.10
		61,226	1.28
<i>Exchange traded options (cost US\$48,728)</i>			
Euribor	termination dates through December 2018	26,692	0.55
Euro	termination dates through September 2018	36,614	0.76
Eurodollar	termination dates through December 2018	15,081	0.31
Libor 3M	termination dates through March 2018	1,639	0.04
Other	termination dates through March 2018	1,278	0.03
		81,304	1.69
<i>Commodity options</i>			
Natural Gas	termination dates through November 2019	144	0.00
<i>Equity options (cost US\$4,285)</i>			
S&P 500	termination dates through March 2018	1,122	0.02
Other	termination dates through June 2019	925	0.02
		2,047	0.04

Consolidated Condensed Schedule of Investments continued

31 December 2017

Cost is presented in US\$'000	Fair Value US\$'000	% of Net Assets	
Long portfolio (continued)			
FX options (cost US\$94,131)			
EUR/GBP	termination dates through July 2018	7,724	0.16
EUR/HUF	termination dates through January 2018	1,646	0.04
EUR/SEK	termination dates through June 2018	3,758	0.08
EUR/USD	termination dates through November 2018	12,163	0.25
GBP/USD	termination dates through March 2018	1,811	0.04
USD/CAD	termination dates through December 2018	2,030	0.04
USD/INR	termination dates through October 2019	4,511	0.09
USD/JPY	termination dates through May 2019	5,026	0.10
USD/MXN	termination dates through October 2018	6,182	0.13
USD/TRY	termination dates through December 2018	8,425	0.17
USD/ZAR	termination dates through April 2018	14,423	0.30
Other	termination dates through December 2018	2,257	0.05
		69,956	1.45
Investments in Affiliated Funds (cost US\$525,945)			
Brevan Howard AH Master Fund Limited		461,458	9.58
Brevan Howard Emerging Markets Strategies Master Fund Limited		684	0.01
Brevan Howard Equity Strategies Master Fund Limited		3,269	0.07
Brevan Howard Strategic Opportunities Fund Limited		3,230	0.07
WCG Strategies Fund Limited		458	0.01
		469,099	9.74
Equity swaps		2,878	0.06
Volatility swaps		935	0.02
Total investments, at fair value (cost US\$8,508,314)		8,745,677	181.47

Proceeds are presented in US\$'000				Fair Value US\$'000	% of Net Assets
Short portfolio					
Fixed income securities					
Austria (proceeds (US\$301,297))					
Government					
	144,000	RAGB	4.9% 03/15/2026	(235,777)	(4.89)
	40,000	RAGB	6.3% 07/15/2027	(73,656)	(1.53)
				(309,433)	(6.42)
Belgium (proceeds (US\$71,683))					
Government					
				(72,212)	(1.50)
Finland (proceeds (US\$151,428))					
Government					
				(150,298)	(3.12)
France (proceeds (US\$429,494))					
Government					
	50,000	FRTR	1.5% 05/25/2031	(63,374)	(1.31)
	15,400	FRTR	2.0% 05/25/2048	(19,586)	(0.41)
	45,000	FRTR	2.3% 05/25/2024	(61,073)	(1.27)
	29,644	FRTR	2.8% 10/25/2027	(42,498)	(0.88)
	170,000	FRTR	4.3% 10/25/2023	(253,701)	(5.26)
				(440,232)	(9.13)
Germany (proceeds (US\$461,361))					
Government					
	47,500	BKO	0.0% 12/13/2019	(57,399)	(1.19)
	182,300	DBR	1.0% 08/15/2024	(231,584)	(4.80)
	92,000	DBR	4.8% 07/04/2040	(192,540)	(4.00)
				(481,523)	(9.99)
Italy (proceeds (US\$942,737))					
Government					
	11,100	BTPS	0.4% 06/15/2020	(13,358)	(0.28)
	61,424	BTPS	3.3% 09/01/2046	(75,562)	(1.57)
	69,500	BTPS	4.0% 02/01/2037	(98,302)	(2.04)
	34,000	BTPS	4.5% 03/01/2024	(48,596)	(1.01)
	110,000	BTPS	4.5% 05/01/2023	(155,897)	(3.23)
	50,000	BTPS	4.8% 08/01/2023	(72,105)	(1.50)
	20,000	BTPS	4.8% 09/01/2028	(30,017)	(0.62)
	64,224	BTPS	4.8% 09/01/2044	(99,219)	(2.06)
	123,600	BTPS	5.0% 03/01/2025	(183,690)	(3.81)
	49,427	BTPS	5.0% 08/01/2039	(78,220)	(1.62)
	40,000	BTPS	6.0% 05/01/2031	(67,813)	(1.41)
	37,900	BTPS	7.3% 11/01/2026	(65,736)	(1.36)
				(988,515)	(20.51)

Consolidated Condensed Schedule of Investments continued

31 December 2017

Proceeds are presented in US\$'000		Fair Value US\$'000	% of Net Assets
Short portfolio (continued)			
Fixed income securities (continued)			
Netherlands (proceeds (US\$238,825))			
Government		(252,873)	(5.25)
United States (proceeds (US\$65,451))			
Government		(65,447)	(1.36)
Total fixed income securities (proceeds (US\$2,662,276))		(2,760,533)	(57.28)
Interest rate guarantee options (proceeds (US\$64,562))			
EUR	termination dates through November 2020	(34,018)	(0.71)
USD	termination dates through April 2022	(8,953)	(0.19)
		(42,971)	(0.90)
Forward rate agreements			
USD	termination dates through September 2018	(4,946)	(0.10)
ZAR	termination dates through September 2019	(6,181)	(0.13)
		(11,127)	(0.23)
Interest rate swaps			
AUD	termination dates through June 2028	(2,106)	(0.04)
CAD	termination dates through June 2028	(10,572)	(0.22)
CLP	termination dates through September 2020	(451)	(0.01)
COP	termination dates through September 2020	(21)	(0.00)
CZK	termination dates through September 2019	(688)	(0.01)
EUR	termination dates through June 2048	(21,322)	(0.44)
GBP	termination dates through December 2047	(11,546)	(0.24)
HUF	termination dates through December 2027	(1,817)	(0.04)
ILS	termination dates through June 2027	(1,337)	(0.03)
JPY	termination dates through February 2041	(4,572)	(0.09)
KRW	termination dates through March 2019	(691)	(0.02)
MXN	termination dates through September 2037	(13,548)	(0.28)
NZD	termination dates through November 2023	(85)	(0.00)
USD	termination dates through March 2048	(34,478)	(0.72)
ZAR	termination dates through December 2027	(1,052)	(0.02)
		(104,286)	(2.16)
Credit default swaps (proceeds (US\$144,392))			
USD	termination dates through December 2049	(96,846)	(2.01)
Swaptions (proceeds (US\$80,984))			
EUR	termination dates through November 2026	(15,788)	(0.33)
GBP	termination dates through July 2018	(10,567)	(0.22)
JPY	termination dates through March 2019	(106)	(0.00)
SEK	termination dates through January 2018	(11)	(0.00)
USD	termination dates through November 2019	(36,744)	(0.76)
		(63,216)	(1.31)

Proceeds are presented in US\$'000		Fair Value US\$'000	% of Net Assets
Short portfolio (continued)			
<i>FX contracts</i>			
BRL/USD	termination dates through March 2018	(4,225)	(0.09)
CHF/USD	termination dates through July 2018	(7,292)	(0.15)
CNH/USD	termination dates through October 2018	(22,740)	(0.47)
EUR/CZK	termination dates through April 2018	(3,916)	(0.08)
EUR/PLN	termination dates through March 2018	(1,801)	(0.05)
EUR/USD	termination dates through June 2027	(3,036)	(0.06)
GBP/USD	termination dates through April 2018	(1,280)	(0.03)
JPY/USD	termination dates through December 2018	(2,048)	(0.04)
KRW/USD	termination dates through March 2018	(1,479)	(0.03)
MXN/USD	termination dates through October 2018	(38,711)	(0.80)
TRY/USD	termination dates through December 2018	(81,754)	(1.70)
ZAR/USD	termination dates through March 2018	(9,838)	(0.20)
Other	termination dates through October 2018	(4,768)	(0.10)
		(182,888)	(3.80)
<i>Exchange traded futures</i>			
30 Day free	termination dates through January 2019	(2,123)	(0.04)
Euribor	termination dates through June 2019	(2,339)	(0.05)
Euro	termination dates through March 2019	(3,835)	(0.08)
Eurodollar	termination dates through December 2019	(4,896)	(0.10)
Gilt	termination dates through March 2018	(2,458)	(0.05)
Other	termination dates through March 2019	(1,260)	(0.03)
		(16,911)	(0.35)
<i>Exchange traded options (proceeds (US\$30,702))</i>			
Euribor	termination dates through December 2018	(19,625)	(0.41)
Euro	termination dates through September 2018	(19,795)	(0.41)
Eurodollar	termination dates through December 2018	(12,591)	(0.26)
Libor 3M	termination dates through March 2018	(1,839)	(0.04)
Other	termination dates through March 2018	(856)	(0.02)
		(54,706)	(1.14)
<i>Commodity options</i>			
Brent Crude	termination dates through January 2018	(216)	(0.00)
<i>Equity options (proceeds (US\$461))</i>			
S&P 500	termination dates through June 2019	(80)	(0.00)

Consolidated Condensed Schedule of Investments continued

31 December 2017

Proceeds are presented in US\$'000		Fair Value US\$'000	% of Net Assets
Short portfolio (continued)			
FX options (proceeds (US\$50,932))			
EUR/GBP	termination dates through July 2018	(6,956)	(0.14)
EUR/HUF	termination dates through January 2018	(1,646)	(0.03)
EUR/SEK	termination dates through March 2018	(1,414)	(0.03)
EUR/USD	termination dates through July 2018	(4,777)	(0.10)
USD/INR	termination dates through October 2019	(4,641)	(0.10)
USD/JPY	termination dates through May 2019	(3,762)	(0.08)
USD/MXN	termination dates through May 2018	(2,440)	(0.05)
USD/TRY	termination dates through October 2018	(6,524)	(0.14)
USD/ZAR	termination dates through February 2018	(9,690)	(0.20)
Other	termination dates through March 2018	(1,174)	(0.02)
		(43,024)	(0.89)
Cross currency swaps		(1,257)	(0.03)
Equity swaps		(2,120)	(0.04)
Volatility swaps		(711)	(0.01)
Total investments sold short, at fair value (proceeds (US\$3,034,309))		(3,380,892)	(70.15)

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Operations

For the year ended 31 December 2017

	2017 US\$'000
Investment income	
Interest income	17,387
Dividend income (net of withholding tax of US\$359)	745
Other income	22
Total income	18,154
Expenses	
Interest expense	54,401
Professional fees and other	3,900
Operational services fee (Note 4)	36,767
Management fee (Note 5)	11
Administration fee (Note 6)	9,307
Trade commissions	23,985
Other transaction costs	28,476
Total expenses	156,847
Net investment loss	(138,693)
Net realised and unrealised gain/(loss) on investments	
Net realised gain on investments (Note 2)	300,306
Net change in unrealised loss on investments (Note 2)	(280,281)
Net realised and unrealised gain on investments	20,025
Net decrease in net assets resulting from operations attributable to shareholders	(118,668)
Non-controlling interest share in net loss (Note 2)	(9,644)
Net decrease in net assets resulting from operations	(128,312)

Withholding tax is presented in US\$'000.

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

For the year ended 31 December 2017

	2017 US\$'000
Net decrease in net assets resulting from operations	
Net investment loss	(138,693)
Net realised gain on investments	300,306
Net change in unrealised loss on investments	(280,281)
Non-controlling interest share in net loss (Note 2)	(9,644)
	(128,312)
Share Capital Transactions	
Issue of shares	
US Dollar Class A	490,583
US Dollar L.P. Class A	8,655
Euro Class A	229,019
Sterling Class A	312,786
Australian Dollar Class A	2
Canadian Dollar Class A	5,022
Norwegian Krone Class A	2
Swedish Krona Class A	6
US Dollar Class B	6,260
Euro Class B	973
Sterling Class B	37,193
US Dollar Class W	34,850
US Dollar L.P. Class W	21,800
Sterling Class W	29,220
Euro Class W	40,832
Yen Class W	4,271
US Dollar Class Z	146,000
Sterling Class Z	154,703
Redemption of shares	
US Dollar Class A	(4,056,491)
US Dollar L.P. Class A	(873,030)
Euro Class A	(135,999)
Sterling Class A	(1,314,487)
Yen Class A	(129,024)
Canadian Dollar Class A	(16,605)
Norwegian Krone Class A	(5,889)
Swedish Krona Class A	(23,842)
US Dollar Class B	(152,143)
Euro Class B	(35,257)
Sterling Class B	(254,017)
US Dollar Class W	(68,220)
US Dollar L.P. Class W	(19,961)
Euro Class W	(5,409)
US Dollar Class Z	(157,919)
Sterling Class Z	(166,004)
Yen Class Z	(11,355)
Net decrease in net assets	(6,031,787)
Net assets – beginning of year	10,851,127
Net assets – end of year	4,819,340

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

2017
US\$'000

Cash flows from operating activities:	
Net decrease in net assets resulting from operations	(128,312)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Proceeds from sales of securities	121,166,387
Purchases of securities	(102,916,809)
Proceeds from securities sold short	137,944,764
Payments to cover securities sold short	(152,200,360)
Net realised gain from investments	432,041
Net change in unrealised loss from investments	(332,621)
Net change in unrealised gain on derivative assets and liabilities	1,087,722
Decrease in dividends and interest receivable	46,404
Decrease in other assets	2,721
Increase in due from broker	(2,650,729)
Increase in due to broker	2,885,126
Decrease in accounts payable and accrued expenses	(2,418)
Decrease in dividends and interest payable	(113,423)
Net cash provided by operating activities	5,220,493
Cash flows from financing activities:	
Proceeds on issue of shares	1,603,115
Payments on redemption of shares	(8,001,656)
Decrease in investments purchased under agreements to resell	15,773,249
Decrease in investments sold under agreements to repurchase	(14,578,408)
Net cash used in financing activities	(5,203,700)
Net increase in cash	16,793
Cash – beginning of year	564
Cash – end of year	17,357

Supplemental disclosure of cash flow information:

<i>Interest paid</i>	168,036
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Non-cash financing activities not included herein consist of:

Movement in long-term interest-bearing subscriptions receivable of (US\$80,938,083).

Movement in redemptions payable of US\$576,003,543.

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

31 December 2017

1. Organisation

Brevan Howard Master Fund Limited (the “Master Fund”) is an exempted limited liability company which was incorporated under the Companies Law of the Cayman Islands on 22 January 2003 and commenced trading on 1 April 2003. The Master Fund registered under the Mutual Funds Law of the Cayman Islands on 4 March 2003.

The Master Fund seeks to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund’s investment strategy is comprised of global investment strategies and a number of long and short strategies that may have directional risk.

Brevan Howard Capital Management LP (the “Manager”), acting through its sole general partner, Brevan Howard Capital Management Limited, is the Manager of the Master Fund. The Manager has registered as a Commodity Pool Operator with the United States Commodity Futures Trading Commission with effect from 1 January 2013 in respect of the Master Fund.

The Manager has appointed each of: (i) Brevan Howard Asset Management LLP (“BHAM”); (ii) Brevan Howard Investment Products Limited (“BHIPL”); (iii) Brevan Howard (Hong Kong) Limited; (iv) Brevan Howard (Israel) Ltd; (v) DW Partners, LP; (vi) BH-DG Systematic Trading LLP; (vii) Brevan Howard US Investment Management, LP and (viii) Brevan Howard Private Limited as Investment Managers (the “Investment Managers”) of the Master Fund’s assets, in each case subject to risk oversight and treasury management by BHIPL and/or BHAM. The Manager may in future appoint additional Investment Managers provided that they are affiliates of the Manager and subject to risk oversight by the Manager or one of its affiliates.

The Manager and the Investment Managers (and/or their members, Directors, employees, related entities and connected persons and their respective members, Directors and employees) may subscribe, directly or indirectly, for shares and/or interests in the Master Fund’s feeder funds. The feeder funds comprise of Brevan Howard Fund Limited, Brevan Howard L.P. and BH Macro Limited (together the “Feeder Funds”).

The registered office of the Master Fund is at M&C Corporate Services Limited, P.O. Box 309, George Town, Grand Cayman KY1-1104, Cayman Islands.

2. Significant accounting policies

Basis of preparation

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The Consolidated Financial Statements are presented in United States Dollars (“US\$” or “US Dollar”).

For financial statement reporting purposes, the Master Fund is an investment company and follows Financial Services – Investment Companies (ASC 946). The Master Fund did not provide financial support to any related parties or investee entities during the current year over and above the normal course of business.

Standards and amendments to existing standards effective in the year beginning 1 January 2017

In May 2015, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2015–07, “Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)”. ASU No. 2015–07 requires that investments for which the fair value is measured at Net Asset Value (“NAV”) using the practical expedient (investments in funds measured at NAV) under “Fair Value Measurements and Disclosures” (Topic 820) be excluded from the fair value hierarchy. ASU No. 2015–07 is effective for interim and annual reporting periods beginning after 15 December 2016. ASU No. 2015–07 is required to be applied retrospectively to all periods presented beginning in the period of adoption. The Master Fund adopted ASU No. 2015–07, and adoption did not affect the Master Fund’s financial condition, results of operations, or cash flows.

In December 2016, the FASB issued ASU No. 2016-19, Technical Corrections and Improvements. Included in ASU No. 2016-19 is an amendment to Topic 820, Fair Value Measurement, which clarifies the difference between a valuation approach and a valuation technique. The amendment to the Topic also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. The Master Fund is required to apply ASU No. 2016-19 for fiscal years beginning after 15 December 2016 and interim periods within those fiscal years.

Basis of consolidation

In accordance with the accounting guidance in ASC 946-320, 946-323 and 946-810, the Master Fund carries all investments at fair value, with the exception of the investments detailed in the paragraph below.

The Master Fund has consolidated the following entities (together the “Subsidiaries”) as at 31 December 2017:

- BHMFI Investments II Limited, a company incorporated with limited liability on 7 May 2010 under the laws of the Cayman Islands;

2. Significant accounting policies (continued)

- Brevan Howard AS Macro Master Fund Limited (“BASM”), a company incorporated with limited liability on 5 July 2017 under the laws of the Cayman Islands; and
- Brevan Howard Liquid Portfolio Strategies (“the Fund”), a company incorporated under the name of Brevan Howard Investment Fund on 12 January 2009 for an unlimited period and which changed its name to “Brevan Howard Liquid Portfolio Strategies” with effect from 1 October 2015. The Fund is governed by Part I of the Luxembourg Law of 17 December 2010 on Undertakings for Collective Investment (UCI). The Fund is composed of three sub-funds being Brevan Howard Dynamic US Investment Fund (“UDU”), Brevan Howard Dynamic Global Investment Fund (“UDG”) and Brevan Howard Dynamic Strategies Fund (“ULM”). As at 31 December 2017, the Master Fund consolidates Brevan Howard Dynamic Global Investment Fund and Brevan Howard Dynamic Strategies Fund. The Brevan Howard Dynamic US Investment Fund was closed on 20 December 2017.

The Master Fund owns 100% of BHMFI Investments II Limited, 74.99% of BASM and 92.90% and 97.88% of UDG and ULM respectively, in each case as at 31 December 2017.

The Consolidated Financial Statements include full consolidation of wholly owned subsidiaries, except where the effect on the Master Fund’s financial position and results of operations are immaterial. Transactions between the Master Fund and the Subsidiaries have been eliminated on consolidation.

Security transactions and valuation

Security transactions are accounted for on a trade date basis.

Most positions of the Master Fund and its Subsidiaries are priced at the same time each day. This provides reliable comparative pricing of positions which are traded in different markets. A snapshot of all markets (excluding Pacific Rim and Australasia) is made at 4:00 pm London time. Pacific Rim and Australasia positions are generally priced as at the local end-of-day mid market levels.

Instruments with directly observable prices are priced to independent external data sources (e.g. exchange traded futures, options, equities, government and corporate debt securities). Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, liquidity discounts, currency, credit, and interest rate risks, loss experience and other factors. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realisable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rates, liquidity risks and estimates of future cash flows, could significantly affect these fair value estimates.

Estimates of the fair value of Level 3 assets and liabilities as defined by the ASC 820 of the Master Fund and its Subsidiaries’ financial instruments are disclosed in Note 3.

Investments in other funds are valued at the latest available reported Net Asset Value (“NAV”) of the respective fund received from that fund’s administrator. In some cases these may be unaudited NAVs.

Some instruments may be priced using models in which some or all parameters are not directly driven by market-observable levels (e.g. unlisted securities, multifaceted options or private placements).

Over the counter (“OTC”) swap, forward and option values are determined based on relevant market information on the underlying reference assets which may include credit spreads, credit event probabilities, index values, individual security values, forward interest rates, variable interest rates, volatility measures and forward currency rates.

Realised gains and losses on investments are calculated using the highest in first out method. Realised and unrealised gains and losses are recorded at the reporting date in the Consolidated Statement of Operations.

Income and expense recognition

Interest income and expense including prime broker and International Swaps and Derivatives Association (“ISDA”)/ International Security Market Association (“ISMA”) interest is recognised in the Consolidated Statement of Operations on an accruals basis.

Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income on long positions is recognised on the ex-dividend date and dividends declared on short positions existing on the record date are recognised on the ex-dividend date as an expense in the Consolidated Statement of Operations.

Investments purchased under agreements to resell and investments sold under agreements to repurchase

The Master Fund and its Subsidiaries enter into investment purchases under agreements to resell and investment sales under agreements to repurchase. These agreements are accounted for as collateralised financing transactions and are recorded at their contracted resell or repurchase amounts, which approximate fair value.

The Investment Managers monitor the market value of the Master Fund and its Subsidiaries’ underlying contract amounts, including accrued interest, and requests or provides additional collateral where deemed appropriate. Interest on investments purchased under agreements to resell and investments sold under

Notes to the Consolidated Financial Statements

continued

31 December 2017

2. Significant accounting policies (continued)

agreements to repurchase is accrued on a daily basis, and are recorded as interest expense and interest income, respectively, in the Consolidated Statement of Operations.

Asset-backed securities

The Master Fund and its Subsidiaries may invest in asset-backed securities. These securities include mortgage backed securities, collateralised debt obligations ("CDOs") and other asset-backed securities representing interests in pools of loans or other receivables. Mortgage backed securities are created from pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Asset-backed securities are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. The rate of pre-payments on underlying assets will affect the price and volatility of an asset backed security, and may have the effect of shortening or extending the effective duration of the security relative to what was anticipated at the time of purchase.

CDOs include Collateralised Bond Obligations, Collateralised Loan Obligations and other similarly structured securities. The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which the Master Fund and its Subsidiaries invest. CDOs carry additional risks including, but not limited to, (i) the possibility that distributions from collateral securities will not be sufficient to make interest or other payments, (ii) the quality of the collateral may decline in value or default, (iii) the Master Fund and its Subsidiaries may invest in CDOs that are subordinate to other classes, and (iv) the complex structure of the security may result in disputes with the issuer or unexpected investment results.

Asset-backed securities with directly observable prices are priced to independent external data sources, where such market prices are not readily available, fair values will be determined using commercial products which utilise valuation models that are consistent with market pricing models. The valuation models use discounted cash flow analysis which incorporate both observable and non-observable inputs disclosed in Note 3. Paydown gains and losses on asset-backed securities, if any, are recorded as realised gains or losses in the Consolidated Statement of Operations.

Derivative financial instruments

The Master Fund and its Subsidiaries use derivative financial instruments such as foreign exchange contracts, options, futures contracts, forward rate agreements and swaps, which are recorded at fair value at the reporting date. Realised and unrealised changes in fair values are included in realised and unrealised gains and losses on investments in the Consolidated Statement of Operations in the period in which the changes occur. The fair value of derivative financial instruments at the reporting date generally reflects the amount that the Master Fund and its Subsidiaries would receive or pay to terminate the contract at the reporting date. Many derivative financial instruments are

exchange traded or are traded in the OTC market where market values are normally readily obtainable. Where such market prices are not readily available, fair values will be determined using commercial products which utilise valuation models that are consistent with market pricing methods.

When the Master Fund and its Subsidiaries purchase a put or call option, an amount, equal to the premium paid by the Master Fund and its Subsidiaries, is recorded as an investment and is subsequently adjusted to the current fair value of the option purchased on the reporting date.

Premiums paid for purchasing options that expire unexercised are treated by the Master Fund and its Subsidiaries on the expiration date as realised losses on investments. The difference between the premium and the amount received on writing an option to effect a closing transaction, including brokerage commissions, is also treated as a realised loss, or, if the premium is less than the amount received from the closing transaction, as a realised gain. If a call option is exercised, the premium is added to the cost of purchase of the underlying security or currency in determining whether the Master Fund and its Subsidiaries has realised a gain or loss. If a put option is exercised, the premium reduces the proceeds of the securities sold by the Master Fund and its Subsidiaries.

Unrealised gains or losses on open foreign exchange contracts and forward rate agreements represent the Master Fund and its Subsidiaries' net equity therein and is calculated as the present value of the difference between the contract date rate and the applicable forward rate at the reporting date, applied to the face amount of the forward contract. The unrealised gain or loss at the reporting date is included in the Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on open futures contracts are calculated as the difference between the contract price at trade date and the contract's revaluation price. Any payments made to satisfy initial and variation margin are reflected as due to and due from broker balances on the Consolidated Statement of Assets and Liabilities.

Unrealised gains or losses on swap agreements represent the cumulative fair value change since the last reporting date and are calculated as the present value of the future net cash flows to be received and paid under the agreement.

2. Significant accounting policies (continued)

The following table sets forth the fair value of the Master Fund and its Subsidiaries' derivative contracts by certain risk types as of 31 December 2017 in accordance with Derivatives and Hedging (ASC 815). The values in the table below exclude the effects of cash received or posted pursuant to derivative contracts, and therefore are not representative of the Master Fund and its Subsidiaries' net exposure. The derivative assets and derivative liabilities are included in "Investments, at fair value" and "Investments sold short, at fair value", respectively, in the Consolidated Statement of Assets and Liabilities.

Derivative contracts for trading activities	Open Positions at year end	Transactions during year	VAR* US\$'000	Derivative Assets US\$'000	Derivative Liabilities US\$'000
Commodity Contracts	47	14,895	563	1,714	251
Credit Contracts	42	420	385	2,964	96,845
Equity Contracts	518	36,543	6,083	10,176	2,718
Foreign Exchange Contracts	2,180	75,191	1,549	328,579	227,918
Interest Rate Contracts	1,393	86,687	15,290	413,883	292,627
Gross fair value of derivative contracts				757,316	620,359

* VaR calculated using a two year historical simulation, based on a one day time horizon, at a 95% confidence interval. The VaR shown in the table above is for derivatives only, excluding treasury positions. Total VaR for the derivatives contracts above is US\$16,647,722. Total VaR for the Master Fund and its Subsidiaries, including derivatives, non-derivatives and investments in affiliated entities, is US\$16,714,551.

The following table sets forth by certain risk types the Master Fund and its Subsidiaries' gains/(losses) related to derivative activities for the year ended 31 December 2017 in accordance with ASC 815. These gains/(losses) should be considered in the context that derivative contracts may have been executed to economically hedge certain securities and accordingly, certain gains or losses on derivative contracts may offset certain gains or losses attributable to securities. These gains/(losses) are included in net realised gain and net change in unrealised loss on investments in the Consolidated Statement of Operations.

Derivative contracts for trading activities	Realised Gains/(Losses) Year Ended 31 December 2017 US\$'000	Change in Unrealised Gains/(Losses) Year Ended 31 December 2017 US\$'000
Commodity Contracts	(45,158)	45,551
Credit Contracts	174,896	(173,238)
Equity Contracts	5,951	33,922
Foreign Exchange Contracts	57,646	(286,244)
Interest Rate Contracts	337,183	(272,058)
Total	530,518	(652,067)

Foreign exchange contracts include foreign exchange futures, forwards, swaps, options and any other derivative contract in which the reference asset is a foreign exchange rate. Commodity contracts include commodity futures and options and any other derivative contract in which the reference asset is a commodity price or index. Credit contracts include credit default swaps, credit index options and any other derivative contract in which the reference asset is a credit event or other credit risk on an underlying entity, financial asset or a credit index. Equity contracts include equity futures, forwards, options, swaps, contracts for difference and any other derivative contract in which the reference asset is an equity price or index. Interest rate contracts include interest rate futures, forwards, swaps, options, caps and floors, swaptions, forward rate agreements and any other derivative contract in which the reference asset is an interest rate or debt security.

The Master Fund and its Subsidiaries enter into derivative contracts that meet the definition of a credit derivative as defined by ASC 815. These contracts are primarily written and purchased credit default swaps on single issuers, asset-backed securities, credit indices and index or CDO tranches.

Notes to the Consolidated Financial Statements

continued

31 December 2017

2. Significant accounting policies (continued)

The following table relates to the Master Fund and its Subsidiaries' written credit derivatives as at 31 December 2017:

Maximum payout/notional amount by period of expiration

Contract type	0-2 Years US\$'000	2-5 Years US\$'000	5 Years or Greater US\$'000	Total US\$'000
Credit index – mortgage backed	–	–	143,339	143,339
Mortgage backed	–	–	7,632	7,632
Total	–	–	150,971	150,971

Maximum payout/notional amount

Contract type	Written Credit Derivative US\$'000	Offsetting Purchased Credit Derivative US\$'000	Net of Offsetting Purchased Credit Derivative US\$'000	Written Credit Derivative at Fair Value US\$'000
Credit index – mortgage backed	143,339	–	143,339	(89,977)
Mortgage backed	7,632	–	7,632	(4,056)
Total	150,971	–	150,971	(94,033)

The Master Fund and its Subsidiaries may execute these types of credit derivatives as it seeks to increase its total return or as a means of hedging credit exposure.

Period of expiration, contract type, maximum payout and fair value are indicators of payment/performance risk. As a provider of credit protection, the Master Fund and its Subsidiaries receive a stream of payments from the counterparty representing the premium on the contract in exchange for guaranteeing the principal payment on a reference security or obligation upon the issuer's default. Upon the occurrence of a specified credit event, as a seller of credit protection, the Master Fund and its Subsidiaries are entitled to take possession of the defaulted underlying security and pay the buyer an amount equal to the notional amount of the swap. It may alternatively pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap reduced by the recovery value of the reference obligation.

Investments sold short

The Master Fund and its Subsidiaries may sell a security it does not own in anticipation of a decline in the market value of that security. When the Master Fund and its Subsidiaries sell a security short, it must borrow the security and deliver it to the broker-dealer through which it made the short sale. The Master Fund and its Subsidiaries are required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the value at which the Master Fund and its Subsidiaries sold the security short, or a loss, unlimited in size, will be recognised upon the termination of a short sale and recorded as a net realised gain or loss on investments in the Consolidated Statement of Operations. Investments sold short are recorded as liabilities on the Consolidated Statement of Assets and Liabilities.

Foreign currency translation

Investment securities and other assets and liabilities denominated in foreign currencies are translated into US Dollar amounts at prevailing exchange rates at the reporting date. Purchases and sales of investment securities in foreign currencies and income and expense items denominated in foreign currencies are translated into US Dollar amounts at the prevailing exchange rate on the respective dates of such transactions.

The Master Fund and its Subsidiaries do not isolate that portion of the results of operations resulting from changes in currency exchange rates on investments from the fluctuations arising from changes in market prices of securities held. All foreign currency gains and losses are included in net realised gain and net change in unrealised loss on investments in the Consolidated Statement of Operations.

2. Significant accounting policies (continued)

Use of estimates

The preparation of Consolidated Financial Statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. In particular, valuation models used to determine the fair value of unlisted derivative instruments require the use of a number of assumptions.

Netting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Assets and Liabilities when, and only when, the Master Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under US GAAP.

Cash

Cash consists of bank balances. Cash, including cash denominated in foreign currencies, represents cash deposits held at financial institutions. Foreign currency with a current value of US\$1,706,401 and an acquisition cost of US\$1,687,404 is included in cash in the Consolidated Statement of Assets and Liabilities.

Due from and to brokers

Amounts receivable from and payable to brokers includes settlement of trades along with deposits held as collateral. As at 31 December 2017, deposits held as collateral amounted to US\$135,073,000 and amounts pledged as collateral amounted to US\$383,691,793.

At 31 December 2017, the Master Fund pledged collateral to counterparties to OTC derivative contracts of \$132,937,579 and received collateral from counterparties to OTC derivative contracts of \$135,073,000. Also, at 31 December 2017, due from brokers includes \$149,297,267 of initial margin related to its futures trading activities.

Allocation of income and expenses between share classes

Income and expenses that are identifiable with a particular class are allocated to that class in computing its NAV.

Income and expenses that are common to all classes are allocated between classes based on their monthly NAVs.

Redemptions payable

Redemptions are recognised as liabilities when the value of such redemptions are calculated at requested redemption date. As a result, redemptions paid after the end of the year, based on the net asset value of the Master Fund and its Subsidiaries at year end, are included in redemptions payable at 31 December 2017.

3. Fair value measurements

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price).

The fair value hierarchy under Fair Value Measurement (ASC 820) prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model derived valuations for which all significant inputs are observable, either directly or indirectly in active markets; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

Investments in private investment companies measured using net asset value as a practical expedient are not categorised within the fair value hierarchy.

Notes to the Consolidated Financial Statements

continued

31 December 2017

3. Fair value measurements (continued)

Investments in private investment companies are valued utilizing the net asset values provided by the underlying private investment companies as a practical expedient. The Master Fund applies the practical expedient to its investments in private investment companies on an investment by-investment basis, and consistently with the Master Fund's entire position in a particular investment, unless it is probable that the Master Fund will sell a portion of an investment at an amount different from the net asset value of the investment.

The hierarchy requires the use of observable market data when available. As required by ASC 820, investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following is a summary of the levels within the fair value hierarchy for the Master Fund and its Subsidiaries' investments as at 31 December 2017:

Assets

Fair value measurement at reporting date:	Level 1: US\$'000	Level 2: US\$'000	Level 3: US\$'000	Total US\$'000
Equities	16,129	2,158	–	18,287
Fixed Income Securities				
Asset Backed Securities	–	400	20	420
Corporate Debt Securities	65,066	9,674	807	75,547
Mortgage Backed Securities	–	8,702	859	9,561
Non-US Government Debt	4,166,029	14,105	–	4,180,134
US Government Debt	3,235,313	–	–	3,235,313
Derivatives				
Commodity Contracts	894	820	–	1,714
Credit Contracts	–	2,964	–	2,964
Equity Contracts	1,206	8,970	–	10,176
Foreign Exchange Contracts	–	328,579	–	328,579
Interest Rate Contracts	52,175	361,643	65	413,883
Subtotal	7,536,812	738,015	1,751	8,276,578
Investment in Affiliated Funds measured at NAV*				469,099
Total assets				8,745,677

* Investments in Affiliated Funds as of 31 December 2017 are excluded from the fair value hierarchy leveling as the fair value of these investments were measured at NAV as a practical expedient.

Liabilities

Fair value measurement at reporting date:	Level 1: US\$'000	Level 2: US\$'000	Level 3: US\$'000	Total US\$'000
Fixed income securities				
Non-US Government Debt	2,695,086	–	–	2,695,086
US Government Debt	65,447	–	–	65,447
Derivatives				
Commodity Contracts	9	242	–	251
Credit Contracts	–	93,099	3,746	96,845
Equity Contracts	61	2,657	–	2,718
Foreign Exchange Contracts	–	227,918	–	227,918
Interest Rate Contracts	23,800	268,827	–	292,627
Total liabilities	2,784,403	592,743	3,746	3,380,892

3. Fair value measurements (continued)

The fair value of equity securities by industry type is presented in the Consolidated Condensed Schedule of Investments.

The Master Fund and its Subsidiaries' policy is to recognise transfers in and transfers out of each level as at the end of each month.

Transfers in and transfers out of Level 3 have occurred due to the change in availability of observable market data.

There were no significant transfers between Level 1 and Level 2 during the year ended 31 December 2017. The Master Fund and its Subsidiaries had no investments measured at fair value on a non-recurring basis during the year ended 31 December 2017.

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Master Fund and its Subsidiaries have classified within the Level 3 category. As a result, the unrealised gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

Level 3 Assets

	Asset Backed Securities US\$'000	Corporate Debt US\$'000	Derivatives US\$'000	Mortgage Backed Securities US\$'000	Private Placements US\$'000	Total US\$'000
Investments						
Beginning balance as of 1 January 2017	449	–	48,518	2,050	–	51,017
Purchases	–	–	41,885	29,243	–	71,128
Sales	(1,933)	–	(115,704)	(36,677)	(5,445)	(159,759)
Transfer in to Level 3	1,518	1,355	30,180	11,148	–	44,201
Transfer out of Level 3	(356)	(703)	(160)	(6,754)	–	(7,973)
Realised gain/(loss)	(1,578)	–	12,062	(300)	2,945	13,129
Change in unrealised gain/(loss)	1,920	155	(16,716)	2,149	2,500	(9,992)
Ending balance as of 31 December 2017	20	807	65	859	–	1,751

Liabilities

	Derivatives US\$'000	Total US\$'000
Investments		
Beginning balance as of 1 January 2017	(1,141)	(1,141)
Sales	1,225	1,225
Transfer in to Level 3	(6,158)	(6,158)
Transfer out of Level 3	1,080	1,080
Realised gain/(loss)	(1,095)	(1,095)
Change in unrealised gain/(loss)	2,343	2,343
Ending balance as of 31 December 2017	(3,746)	(3,746)

The change in unrealised gains/(losses) for the year ended 31 December 2017 for Level 3 investments still held at 31 December 2017 amounted to an unrealised loss of US\$7,649,389 and is included in net change in unrealised loss on investments on the Consolidated Statement of Operations.

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3. Fair value measurements (continued)

The following table summarises the valuation methodology and significant unobservable inputs used for the Master Fund and its Subsidiaries' investments that are categorised within Level 3 of the fair value hierarchy as of 31 December 2017:

	Fair Value US\$'000	Valuation Technique	Unobservable Inputs	Range
Asset Backed Securities & Mortgage Backed Securities	879	Discounted cashflow	Constant default rate	3% – 7%
			Conditional prepayment rate	4% –12%
			Loss severity	30% – 100%
			Discount rate	4% –8%
			Deal loss	3% –23%
			Bond loss	0% – 98%
Derivatives	(3,681)	Counterparty valuation/ Broker quote	Correlation factors/constant default rate/conditional prepayment rate/loss severity/discount rate	N/A
Corporate Debt	807	Discounted cashflow	Collateral valuation	N/A

The significant unobservable inputs used in the fair value measurement of Level 3 asset backed securities and mortgage backed securities are constant default rates, conditional prepayment rates, loss severity, discount rates, deal loss and bond loss. Increases in any of the constant default rates, loss severity, discount rates, deal loss or bond loss in isolation would result in a lower fair value for the asset, and vice versa. Increases in conditional prepayment rates could result in a higher or lower fair value depending on the quality of the securities.

Level 3 derivatives are valued by reference to counterparty valuations or single broker quotes. The unobservable inputs implicit in the credit contract counterparty valuations or broker quotes is a combination of constant default rates, conditional prepayment rates, loss severity, discount rates, deal loss and bond loss. Increases in any of the constant default rates, loss severity, discount rates, deal loss or bond loss in isolation would result in a lower fair value for the asset and vice versa. Increases in the conditional prepayment rates could result in a higher or lower fair value depending on the quality of the securities. The unobservable input in all other level 3 derivative contract counterparty valuations or broker quotes is a correlation factor between two or more reference assets. An increase in the correlation factor would result in a higher or lower fair value depending on the nature of the specific instrument.

Level 3 corporate debt is valued using the net present value of estimated future cash flows where the significant unobservable input is the value of the collateral. An increase in the value of the collateral would result in a higher fair value for the asset, and vice versa.

4. Operational services fee

The Manager has received from the Master Fund a fee of 1/12 of 0.50% per month of the NAV, prior to the deduction of management and performance fees, of the Master Fund for the year to 31 December 2017 (the "operational services fee") as at the last valuation day in each month (excluding for these purposes such part of the NAV of the Master Fund which is attributable to (i) any investments made in other investment funds managed by the Manager which also charge an operational services fee, or (ii) the Class Z ordinary shares in the Master Fund and (iii) the Class W ordinary shares in the Master Fund). For certain share classes and series of interests of the Feeder Funds, the operational services fee is effectively capped at the level that a shareholder's holding, or limited partner's capital account would have borne as at 3 October 2016, adjusted as appropriate to reflect redemptions or withdrawals as appropriate from 3 October 2016 to 1 December 2016.

The operational services fee for the year ended 31 December 2017 amounted to US\$36,766,575. The operational services fee receivable at 31 December 2017 is US\$Nil.

5. Management and performance fees

The Manager receives a management fee of 1/12 of 2% (or a pro rata proportion thereof) per month of the NAV (before deduction of that month's management fee and before making any deduction for any accrued performance fee) as at the last valuation day in each month, payable monthly in arrears on Class X shares and Class Y shares, neither of which were in issue during the period. No management fees are payable in respect of Class A shares, Class B shares, Class Z shares and Class W shares. The Manager does not receive any management fee from BASM, UDG and ULM in respect of the Master Fund's investments in the Subsidiaries.

5. Management and performance fees (continued)

The management fee expense and management fee payable shown in the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements are due to the consolidation of UDG and ULM. The management fee payable at 31 December 2017 is US\$10,802.

The Manager also receives a performance fee of 20% for Class X and Class Y shares, neither of which were in issue during the year.

No performance fees are payable in respect of Class A shares, Class B shares, Class Z shares and Class W shares. The manager does not receive any performance fee from BASM, UDG and ULM in respect of the Master Fund's investments in the Subsidiaries. No performance fee was accrued for the year ended 31 December 2017. No performance fee is payable at the BHMFI Investments II Limited level. The performance fee payable by the Master Fund and its Subsidiaries at 31 December 2017 was US\$Nil.

At 31 December 2017, the Master Fund held investments in the following funds (each an "underlying fund investment") managed by one or more of the Brevan Howard group of affiliated entities:

	US\$
BHMFI Investments II Limited*	2,181,300
Brevan Howard AH Master Fund Limited	461,458,512
Brevan Howard AS Macro Master Fund Limited*	362,920,751
Brevan Howard Emerging Markets Strategies Master Fund Limited	683,552
Brevan Howard Equity Strategies Master Fund Limited	3,268,567
Brevan Howard Liquid Portfolio Strategies – Diversified Strategies Fund*	98,936,545
Brevan Howard Liquid Portfolio Strategies – Dynamic Global Investment Fund*	110,382,126
Brevan Howard Strategic Opportunities Fund Limited	3,230,192
WCG Strategies Fund Limited	458,145

* BHMFI Investments II Limited, Brevan Howard AS Macro Master Fund Limited, Brevan Howard Liquid Portfolio Strategies – Diversified Strategies Fund and Brevan Howard Liquid Portfolio Strategies – Dynamic Global Investment Fund are consolidated subsidiaries of the Master Fund.

The return on the Master Fund's investment in these funds is net of applicable performance and management fees. To ensure that the effective rate of management fees and/or performance fees that is ultimately borne by shareholders in the Master Fund or Feeder Funds (in relation to each underlying fund investment) is not greater than the rate of performance and/or management fees applicable to the class of share held by that investor, the Master Fund or Feeder Fund may reduce management and performance fees charged in relation to these investment holdings accordingly.

6. Administration fee

Under the terms of the Administrative Services Agreement dated 31 March 2016, as amended, between International Fund Services (Ireland) Limited ("IFS") and the Master Fund, the Administrator receives a fee based on the month-end NAV of the Master Fund and its Subsidiaries calculated and payable monthly in arrears.

The administration fee on a monthly basis is the Master Fund's pro rata share (by assets under management subject to such fee) of 1/12 of the following percentages of the aggregate net asset value of all fund entities managed by the Manager (including the Master Fund) and administered by IFS (together, the "Relevant Brevan Howard Funds"):

- (A) (1) 0.13 per cent on the first US\$15 billion;
(2) 0.11 per cent on the next US\$15 billion; and
(3) 0.09 per cent on the balance over US\$30 billion; less
- (B) the portion of such fee attributable to investments made by any Relevant Brevan Howard Fund, directly or indirectly, in any other Relevant Brevan Howard Fund (which, for the avoidance of doubt, includes (1) investments by any Relevant Brevan Howard Fund which is a feeder fund in a Relevant Brevan Howard Fund which is a master fund and (2) investment by any Relevant Brevan Howard Fund which is a master fund in another such Relevant Brevan Howard Fund).

The administration fee for the year ended 31 December 2017 amounted to US\$9,306,589. The administration fee payable at 31 December 2017 is US\$1,110,577.

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7. Investments purchased under agreements to resell and investments sold under agreements to repurchase

At 31 December 2017, investments with a market value of US\$2,954,516,313 were pledged to the Master Fund and its Subsidiaries as collateral (investments purchased under agreements to resell) and investments with a value of US\$ 3,366,245,967 were pledged by the Master Fund and its Subsidiaries as collateral (investments sold under agreements to repurchase).

All agreements to repurchase mature by 22 January 2018 with interest rates ranging from (1.25)% to 0.35% and all agreements to resell mature by 22 January 2018 with interest rates ranging from (1.30)% to 10%.

The following table sets out the gross obligation of the Master Fund and its Subsidiaries by class of collateral pledged at 31 December 2017 for investments sold under agreements to repurchase.

	Remaining Contractual Maturity of the Agreements				Total US\$'000
	Overnight Continuous US\$'000	Up to 30 days US\$'000	30-90 days US\$'000	Greater Than 90 days US\$'000	
Reverse Repurchase agreements					
Corporate Debt Securities	–	58,908	–	–	58,908
US Government Debt	–	369,292	–	–	369,292
Non-US Government Debt	–	3,139,839	–	–	3,139,839
Total borrowings	–	3,568,039	–	–	3,568,039
Gross amount of recognised liabilities for reverse repurchase agreements in Note 11					3,568,039
Amounts related to agreements not included in offsetting disclosure in Note 11					\$–

8. Share capital

The Master Fund has an authorised share capital of:

- €100,000 divided into 10,000,000 ordinary shares of €0.01 par value each;
- US\$400,000 divided into 40,000,000 ordinary shares of US\$0.01 par value each;
- £100,000 divided into 10,000,000 ordinary shares of £0.01 par value each;
- ¥50,000,000 divided into 50,000,000 ordinary shares of ¥1.00 par value each;
- AUD400,000 divided into 40,000,000 ordinary shares of AUD0.01 par value each;
- BRL400,000 divided into 40,000,000 ordinary shares of BRL0.01 par value each;
- CAD400,000 divided into 40,000,000 ordinary shares of CAD0.01 par value each;
- CHF400,000 divided into 40,000,000 ordinary shares of CHF0.01 par value each;
- NOK400,000 divided into 40,000,000 ordinary shares of NOK0.01 par value each;
- SGD400,000 divided into 40,000,000 ordinary shares of SGD0.01 par value each; and
- SEK400,000 divided into 40,000,000 ordinary shares of SEK0.01 par value each.

All of the above may be issued as Class A, Class B, Class X, Class Y, Class Z and Class W shares in any number of series.

The Class A US Dollar share class is divided into two series of shares, relating to Brevan Howard Fund Limited and Brevan Howard L.P. and may be issued as US\$ shares or Gold shares. These series commenced on 1 April 2003 and 1 February 2004 respectively. All Class A US Dollar, Euro, Sterling, Australian Dollar, Canadian Dollar, Brazilian Real, Norwegian Krone, Gold, Yen and Swedish Krona shares are held by Brevan Howard Fund Limited, whilst all Class A US Dollar L.P. shares are held by Brevan Howard L.P. All Class B US Dollar, Euro and Sterling shares are held by BH Macro Limited. Class Z US Dollar, Euro, Sterling and Yen shares are held by Brevan Howard Multi- Strategy Master Fund Limited.

The rights of the Class X shares are substantially the same as those set out in respect of Class A shares in the Feeder Fund save that no redemption fees are payable in respect of Class X shares. There were no Class X shares in issue at the year-end.

8. Share capital (continued)

The rights of the Class Y shares are substantially the same as those set out in respect of Class B shares in the Feeder Fund save that no redemption fees are payable in respect of Class Y shares. There were no Class Y shares in issue at the year-end.

The rights of the Class Z shares are substantially the same as those set out in respect of Class A shares in the Feeder Fund save that no redemption, operational services, management or performance fees are payable in respect of Class Z shares.

The rights of the Class W shares are substantially the same as those set out in respect of Class A shares in the Feeder Fund save that no redemption, operational services, management or performance fees are payable in respect of Class W shares.

	Shares in issue at start of year	Shares issued during the year	Share redeemed during the year	Shares in issue at end of year
US Dollar Class A	1,219,947	99,084	(811,865)	507,166
US Dollar L.P. Class A	296,446	1,885	(194,200)	104,131
Euro Class A	40,264	40,366	(24,886)	55,744
Sterling Class A	204,458	44,129	(184,529)	64,058
Yen Class A	2,916,121	–	(908,967)	2,007,154
Australian Dollar Class A	6,180	2	–	6,182
Brazilian Real Class A	1,132	–	–	1,132
Canadian Dollar Class A	17,276	4,624	(14,271)	7,629
Norwegian Krone Class A	42,475	11	(29,398)	13,088
Swedish Krona Class A	186,004	48	(186,052)	–
US Dollar Class B	73,103	2,184	(53,751)	21,536
Euro Class B	11,118	316	(11,434)	–
Sterling Class B	162,324	9,789	(68,325)	103,788
US Dollar Class W	39,575	33,546	(66,083)	7,038
US Dollar L.P. Class W	550	22,096	(20,503)	2,143
Euro Class W	–	38,766	(4,769)	33,997
Sterling Class W	26,000	23,835	–	49,835
Yen Class W	–	480,000	–	480,000
US Dollar Class Z	769,698	987,235	(1,073,856)	683,077
Euro Class Z	3,701	–	–	3,701
Sterling Class Z	520,381	823,629	(869,341)	474,669
Yen Class Z	98,481	–	(91,154)	7,327

It is envisaged that no income or gains are to be distributed by way of dividend.

9. Taxes

Under current Cayman Islands laws, the Master Fund is not required to pay any taxes in the Cayman Islands on either income or capital gains. The Master Fund has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from any such taxes for a period of 20 years until 11 February 2023. The only taxes payable by the Master Fund on its income are withholding taxes applicable to certain income. Accordingly, no provision for taxes is recorded in these Consolidated Financial Statements.

Accounting for Income Taxes (ASC 740) established financial accounting and disclosure requirements for recognition and measurement of tax positions taken or expected to be taken on a tax return. The Manager has reviewed the Master Fund's tax positions for all open tax years and has concluded that no provision for income tax is required in the Master Fund's Consolidated Financial Statements.

The Master Fund is subject to potential examination by certain taxing authorities in various jurisdictions. The tax liability is also subject to ongoing interpretation of laws by taxing authorities. The tax years under potential examination vary by jurisdiction.

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10. Financial instruments with off-balance sheet risk or concentration of credit risk

Derivative financial instruments may result in off-balance sheet market, credit and liquidity risk. Market risk is the possibility that future changes in market price may make a financial instrument less valuable or more onerous. If the markets should move against one or more positions that the Master Fund and its Subsidiaries holds, the Master Fund and its Subsidiaries could incur losses greater than the unrealised amounts recorded in the Consolidated Statement of Assets and Liabilities. The principal credit risk is that the counterparty to the Master Fund and its Subsidiaries will default and fail to fulfill the terms of the agreement.

Investments sold short have market risk to the extent that the Master Fund and its Subsidiaries, in satisfying its obligation, may have to purchase securities to cover a short position at a higher value than that recorded on the Consolidated Statement of Assets and Liabilities.

Futures contracts expose the Master Fund and its Subsidiaries to credit, market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk such that changes in the market values of the securities or indices underlying a contract may exceed the amount recognised in the Consolidated Statement of Assets and Liabilities. Liquidity risk represents the possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its futures position in times of high volatility and financial stress at a reasonable price.

Forward contracts expose the Master Fund and its Subsidiaries to market and liquidity risks. The Master Fund and its Subsidiaries are exposed to market risk to the extent that adverse changes occur in the value of the underlying asset. Liquidity risk represents the possibility that the Master Fund and its Subsidiaries may not be able to rapidly adjust the size of its forwards positions in times of high volatility and financial stress at a reasonable price.

As a purchaser of an option contract, the Master Fund and its Subsidiaries are subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Master Fund and its Subsidiaries exercise the option. As a purchaser of an option contract, the Master Fund and its Subsidiaries are only subject to market risk to the extent of the premium paid.

The Master Fund and its Subsidiaries purchase both exchange-traded and OTC options. For exchange-traded option contracts, the stock exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. OTC option contracts are not guaranteed by any regulated stock exchange.

The Master Fund and its Subsidiaries invest in fixed income securities and bank loans. Until such investments are sold or mature, the Master Fund and its Subsidiaries are exposed to credit risk relating to whether the issuer will meet its obligation as it comes due.

Entering into credit default swap agreements and contracts for difference exposes the Master Fund and its Subsidiaries to market risks equivalent to actually holding securities of the notional value but typically involve little capital commitment relative to the exposure achieved. The gains or losses of the Master Fund and its Subsidiaries may therefore be significantly greater than this initial commitment.

In connection with investments sold under agreements to repurchase, it is the Master Fund and its Subsidiaries' policy that their prime brokers take possession of the underlying collateral securities, thus exposing the Master Fund and its Subsidiaries to credit risk and counterparty risk. If the seller defaults and the fair value of the collateral declines, realisation of the collateral by the Master Fund and its Subsidiaries may be delayed or insufficient. The Master Fund and its Subsidiaries minimise credit risk by monitoring credit exposure and collateral values, and by requiring additional collateral to be promptly deposited with or returned to the Master Fund and its Subsidiaries when deemed necessary.

In accordance with ASC 815, the Master Fund and its Subsidiaries records its trading-related derivative activities on a fair value basis (as described in Note 2).

Assets and liabilities included in the table in Note 2 represent the fair value of the Master Fund and its Subsidiaries holdings at the year end. These assets and liabilities are not representative of the outstanding credit risk to the Master Fund and its Subsidiaries due to the existence of master netting agreements.

The gross fair value of the Master Fund and its Subsidiaries' derivative instruments are shown in Note 2.

Fair values represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price).

10. Financial instruments with off-balance sheet risk or concentration of credit risk (continued)

The Master Fund and its Subsidiaries maintain trading relationships with counterparties that include domestic and foreign brokers, dealers and financial institutions; these relationships could result in the concentration of the credit risk if counterparties fail to fulfill their obligations or the value of any collateral becomes inadequate.

BHPL has formulated credit review policies that attempt to control credit risk by following an established credit approval process, daily monitoring of net exposure to individual counterparties, requiring the segregation of collateral where possible, and using master netting agreements whenever possible.

Liquidity risk

The Master Fund and its Subsidiaries investment portfolios are leveraged and are actively managed to ensure there is sufficient liquidity to meet collateral calls, shareholder redemption requests and trading and other liabilities as they become due.

The Master Fund and its Subsidiaries seek to trade mainly in investments that are sufficiently liquid and readily realisable at close to fair value in order to meet any potential liquidity requirement. To this end, the Master Fund and its Subsidiaries monitor the speed at which the portfolio can be liquidated under ordinary market conditions and further monitor liquidity by a number of additional measures. Deteriorating market conditions, however, may hamper the ability of the Master Fund and its Subsidiaries to liquidate its investments in an orderly manner.

From time to time, market participants with which the Master Fund and its Subsidiaries effect transactions might cease making markets or quoting prices in certain instruments, may only continue to do so in limited size, or may widen the spreads at which they are prepared to transact. In such instances, the Master Fund and its Subsidiaries might be unable to enter into desired transactions, or close out existing transactions, at normal market levels, which might adversely affect its performance.

The Master Fund and its Subsidiaries' liquidity risk is monitored on a daily basis by staff of the Investment Managers, independent of the portfolio management team, using measures of risk and unencumbered cash and cash equivalents, and includes an escalation process in circumstances where liquidity approaches tolerance levels.

The Master Fund and its Subsidiaries may restrict redemptions in accordance with their Articles of Association if they receive requests for the redemption of shares on any Redemption Day representing in aggregate more than ten per cent of the total number of ordinary shares then in issue on a class by class basis.

11. Offsetting assets and liabilities

The Master Fund and its Subsidiaries are required to disclose the impact of offsetting assets and liabilities represented in the Consolidated Statement of Assets and Liabilities to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements on its financial position for recognised assets and liabilities. These recognised assets and liabilities are financial instruments and derivative instruments that are subject to either an enforceable master netting arrangement or a similar netting agreement in certain circumstances, for example in the event of default.

The following table provides disclosure regarding the potential effect of offsetting of recognised assets presented in the Consolidated Statement of Assets and Liabilities:

As of 31 December 2017

Offsetting of financial assets and derivative assets:

Description	(i)	(ii)	(iii) = (i) – (ii)	(iv)		(v) = (iii) – (iv)
	Gross Amounts of Recognised Assets US\$'000	Gross Amounts Offset in the Consolidated Statement of Assets and Liabilities US\$'000	Net Amounts of Assets Presented in the Consolidated Statement of Assets and Liabilities US\$'000	Gross Amounts, not Offset in the Consolidated Statement of Assets and Liabilities Financial Instruments US\$'000	Cash Collateral Held US\$'000	Net Amount US\$'000
Derivatives	1,315,815	558,499	757,316	547,342	125,614	84,360
Repurchase agreements	3,181,964	163,135	3,018,829	2,710,833	1,681	306,315
Total	4,497,779	721,634	3,776,145	3,258,175	127,295	390,675

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11. Offsetting assets and liabilities (continued)

The following table provides disclosure regarding the potential effect of offsetting of recognised liabilities presented in the Consolidated Statement of Assets and Liabilities:

As of 31 December 2017

Offsetting of financial liabilities and derivative liabilities:

Description	(i)	(ii)	(iii) = (i) - (ii)	(iv)		(v) = (iii) - (iv)
	Gross Amounts of Recognised Liabilities US\$'000	Gross Amounts Offset in the Consolidated Statement of Assets and Liabilities US\$'000	Net Amounts of Liabilities Presented in the Consolidated Statement of Assets and Liabilities US\$'000	Gross Amounts, not Offset in the Consolidated Statement of Assets and Liabilities		Net Amount US\$'000
				Financial Instruments US\$'000	Cash Collateral Pledged US\$'000	
Derivatives	1,178,858	558,499	620,359	547,342	67,243	5,774
Repurchase agreements	3,568,039	163,135	3,404,904	2,710,833	4,423	689,648
Total	4,746,897	721,634	4,025,263	3,258,175	71,666	695,422

12. Financial highlights

The following tables include selected data for share classes in issued during the year and other performance information derived from the Consolidated Financial Statements. The per share amounts and ratios which are shown reflect the consolidated income and expenses of the Master Fund.

Per share operating performance	US Dollar Class A	Euro Class A	Sterling Class A	Yen Class A	Australian Dollar Class A	Brazilian Real Class A	Canadian Dollar Class A	Norwegian Krone Class A	Swedish Krona Class A	US Dollar L.P. Class A
	US\$	€	£	¥	AUD	BRL	CAD	NOK	SEK	US\$
Net asset value, beginning of year	5,121.82	4,997.63	5,646.37	16,406.01	1,811.16	2,667.64	1,513.80	1,604.92	1,058.90	4,601.04
Shares issued during year	-	-	-	-	-	-	-	-	-	-
Income from investment operations										
Net investment income/(loss)	(75.46)	(63.18)	(82.69)	(230.95)	(24.90)	(37.61)	(21.42)	(33.56)	(10.11)	(70.21)
Net realised and unrealised gain/(loss) on investments ⁽¹⁾	(104.11)	(208.97)	(171.76)	(644.02)	(30.12)	132.84	(41.20)	(102.52)	(29.40)	(92.43)
Total income/(loss) from investment operations	(179.57)	(272.15)	(254.45)	(874.97)	(55.02)	95.23	(62.62)	(68.96)	(39.51)	(162.64)
Net asset value fully redeemed during year	-	-	-	-	-	-	-	-	(1,019.39)	-
Net asset value, end of year	4,942.25	4,725.48	5,391.92	15,531.04	1,756.14	2,762.87	1,451.18	1,535.96	-	4,438.40
Total return before and after performance fee⁽²⁾	(3.51%)	(5.45%)	(4.51%)	(5.33%)	(3.04%)	3.57%	(4.14%)	(4.30%)	(3.73%)	(3.53%)

12. Financial highlights (continued)

Per share operating performance	US Dollar Class A US\$	Euro Class A €	Sterling Class A £	Yen Class A ¥	Australian Dollar Class A AUD	Brazilian Real Class A BRL	Canadian Dollar Class A CAD	Norwegian Krone Class A NOK	Swedish Krona Class A SEK	US Dollar L.P. Class A US\$
Supplemental data										
Net assets at 31 December 2017	2,506,544	263,418	345,395	31,173,194	10,856	3,127	11,071	20,102	–	462,176
Average net assets for 2017 ⁽³⁾	4,179,380	217,724	869,857	37,672,794	10,937	3,070	24,877	51,084	127,593	856,338
Ratio to average net assets										
Operating expenses	0.67%	0.67%	0.66%	0.67%	0.67%	0.67%	0.66%	0.66%	0.99%	0.69%
Trade commissions	0.31%	0.26%	0.30%	0.29%	0.27%	0.27%	0.28%	0.30%	0.48%	0.32%
Other transaction costs	0.37%	0.34%	0.35%	0.35%	0.34%	0.34%	0.33%	0.34%	0.51%	0.37%
Interest and dividend expenses	0.74%	0.26%	0.67%	0.57%	0.43%	0.42%	0.48%	0.73%	1.39%	0.82%
Performance fee	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total expenses	2.09%	1.53%	1.98%	1.88%	1.71%	1.70%	1.75%	2.03%	3.37%	2.20%
Net investment (loss)/income	(1.86%)	(1.17%)	(1.76%)	(1.62%)	(1.41%)	(1.39%)	(1.48%)	(1.85%)	(3.20%)	(2.00%)

Per share operating performance	US Dollar Class B US\$	Euro Class B ⁽³⁾ €	Sterling Class B £	US Dollar Class W US\$	US Dollar L.P. Class W US\$	Euro Class W €	Sterling Class W £	Yen Class W ¥	US Dollar Class Z US\$	Euro Class Z €	Sterling Class Z £	Yen Class Z ¥
Net asset value, beginning of year	2,887.21	2,892.07	3,038.32	1,062.11	1,004.10	–	1,002.72	–	150.06	149.64	152.14	14,677.38
Shares issued during year	–	–	–	–	–	1,000.00	–	1,000.00	–	–	–	–
Income from investment operations												
Net investment (income)/loss ⁽¹⁾	(44.26)	(21.61)	(42.73)	(9.48)	(8.02)	(8.49)	(8.79)	3.27	(1.40)	(1.29)	(1.42)	(134.04)
Net realised and unrealised gain/(loss) on investments	(56.56)	(84.51)	(93.79)	(22.62)	(22.61)	(41.23)	(31.59)	(2.11)	(3.12)	(6.14)	(4.70)	(577.94)
Total income/(loss) from investment operations	(100.82)	(106.12)	(136.52)	(32.10)	(30.63)	(49.72)	(40.38)	1.16	(4.52)	(7.43)	(6.12)	(711.98)
Net asset value fully redeemed during year	–	(2,785.95)	–	–	–	–	–	–	–	–	–	–
Net asset value, end of year	2,786.39	–	2,901.80	1,030.01	973.47	950.28	962.34	1,001.16	145.54	142.21	146.02	13,965.40
Total return before and after performance fee⁽²⁾	(3.49%)	(3.67%)	(4.49%)	(3.02%)	(3.05%)	(4.97%)	(4.03%)	0.12%	(3.01%)	(4.97%)	(4.02%)	(4.85%)

	US\$'000	€'000	£'000	US\$'000	US\$'000	€'000	£'000	¥'000	US\$'000	€'000	£'000	¥'000
Supplemental data												
Net assets at 31 December 2017	60,007	–	301,173	7,249	2,087	32,307	47,958	480,555	99,414	526	69,313	102,330
Average net assets for 2017	98,637	10,752	346,986	46,906	16,902	35,518	48,541	483,424	117,408	535	99,693	1,313,512
Ratio to average net assets												
Operating expenses	0.65%	1.27%	0.65%	0.17%	0.20%	0.17%	0.17%	0.17%	0.16%	0.16%	0.16%	0.16%
Trade commissions	0.36%	0.87%	0.30%	0.26%	0.21%	0.27%	0.28%	0.17%	0.30%	0.28%	0.29%	0.28%
Other transaction costs	0.42%	0.93%	0.37%	0.33%	0.28%	0.33%	0.34%	0.17%	0.36%	0.34%	0.34%	0.35%
Interest and dividend expenses	1.20%	3.74%	0.69%	0.39%	(0.18%)	0.35%	0.42%	(0.41%)	0.64%	0.42%	0.56%	0.51%
Performance fee	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total expenses	2.63%	6.81%	2.01%	1.15%	0.51%	1.12%	1.21%	0.10%	1.46%	1.20%	1.35%	1.30%
Net investment (loss)/income	(2.48%)	(6.86%)	(1.77%)	(0.49%)	(0.09%)	(0.81%)	(0.91%)	0.34%	(1.20%)	(0.89%)	(1.10%)	(1.02%)

Operating expenses are total expenses from the Consolidated Statement of Operations, less interest and dividend expenses, trade commissions, other transaction costs and performance fee. Operating expenses, interest and dividend expenses, trade commission, other transaction costs and net investment income/(loss) ratios are annualised for classes that were not in existence for the full year. Total returns and ratios on performance fee are not annualised.

(1) Net realised gain and net change in unrealised loss is determined using the Master Fund's average number of shares at the end of each month.

(2) Total return is indicative of the Master Fund's performance as a whole.

(3) Average net assets are determined using the Master Funds weighted average net assets measured at the end of each month.

Notes to the Consolidated Financial Statements

continued

31 December 2017

13. Related party transactions

Brevan Howard Capital Management LP acting through its sole general partner, Brevan Howard Capital Management Limited, is Manager of the Master Fund. The Manager has appointed each of: (i) BHAM; (ii) BHIPL; (iii) Brevan Howard (Hong Kong) Limited ("BHKK"); (iv) Brevan Howard (Israel) Ltd ("BHI"); (v) DW Partners, LP ("DW Partners"); (vi) BH-DG Systematic Trading LLP ("BH-DG"); (vii) Brevan Howard US Investment Management, LP ("BHUSIM") and (viii) Brevan Howard Private Limited ("BHPL") as Investment Managers of the Master Fund's assets. The transactions with the Manager and Investment Managers and fees payable at the year end are disclosed in Note 4 and Note 5 to the Consolidated Financial Statements.

Each of BHAM, BHIPL, BHKK, BHI, BHUSIM and BHPL are indirect subsidiaries of the Manager. In addition, the Manager indirectly holds minority, non-controlling equity interests in both BH-DG and DW Partners.

As at 31 December 2017, the Manager indirectly held minority, non-controlling equity interests in the following entities that provide investment advice to BHIPL, in its capacity as an Investment Manager of the Master Fund: (i) Harness Investment Group Limited; (ii) Penso Advisors, LLC; and (iii) Commonwealth Opportunity Capital GP LLC. As at 31 December 2017, Commonwealth Opportunity Capital GP LLC and Harness Investment Group Limited no longer provide investment advice to BHIPL.

BH Global Limited ("BHG") is a Guernsey incorporated closed-ended investment company listed on the London Stock Exchange that invests all of its assets in the Brevan Howard Multi-Strategy Master Fund Limited ("BHMS"), a Cayman incorporated limited liability company that is permitted to invest its assets in investment funds managed by the Manager or its affiliates, including the Master Fund. The Manager of the Master Fund is also the manager of BHMS and BHG. BHMS held 4.03% (US\$194,077,787) of the net assets of the Master Fund through a holding of US Dollar, Euro, Sterling and Yen Class Z shares as at 31 December 2017.

As at 31 December 2017, the Master Fund held investments in funds managed by the manager as set out in Note 5. During the year the Master Fund redeemed its investment in DW Value Offshore Fund, Ltd., a fund managed by DW Partners, LP.

The Feeder Funds invest substantially all of their assets in the Master Fund. As at 31 December 2017, Brevan Howard Fund Limited, Brevan Howard L.P. and BH Macro Limited held 76.70%, 9.63% and 9.64% respectively of the net assets of the Master Fund.

14. Long-term interest-bearing subscriptions receivable

The subscriptions receivable amount due from Brevan Howard Fund Limited related to Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares issued by the Feeder Fund is US\$Nil.

All outstanding Nil Paid shares were redeemed as of 2 January 2018. Redemptions of the Nil Paid shares issued in January 2015 took place as originally scheduled on 2 January 2018. Redemptions of the Nil Paid shares issued in January 2016 and in January 2017 were accelerated by one and two years respectively, to 2 January 2018.

The following table details the share transactions during the year:

	In issue at start of Year	Issued during the Year	Redeemed during the Year	In issue at end of Year
Nil Paid US Dollar Class C	40,485	15,085	(55,570)	—
Nil Paid Sterling Class C	35,638	18,868	(54,506)	—

The Nil Paid US Dollar Class C and Nil Paid Sterling Class C shares were issued to BH FGP 2015 LP, BH FGP 2016 LP and BH FGP 2017 LP. A guarantee to pay any unmet capital calls covering the issue of the Nil Paid Class C shares was given to the Feeder Fund by the Manager. Any shortfall on the 2 January 2018 redemption was paid in full by the Manager.

14. Long-term interest-bearing subscriptions receivable (continued)

Accrued interest receivable in the form of a funding fee was recognised by the Feeder Fund as follows:

Share Class	Issue Date	Redemption Date	Funding Fee Rate
Nil Paid US Dollar Class C	Jan-2015	Jan-2018	1.15%
Nil Paid US Dollar Class C	Jan-2016	Jan-2018	1.31%
Nil Paid US Dollar Class C	Jan-2017	Jan-2018	1.47%
Nil Paid Sterling Class C	Jan-2015	Jan-2018	0.94%
Nil Paid Sterling Class C	Jan-2016	Jan-2018	0.86%
Nil Paid Sterling Class C	Jan-2017	Jan-2018	0.25%

No further Nil Paid shares were issued in 2018.

15. Investments in underlying funds

Investments in underlying funds are valued using NAV as a practical expedient, which is based on the latest NAV as calculated by the administrator of each fund. Due to the potential uncertainty of the valuation of the underlying funds, these values may differ significantly from the values that would have been used had an active secondary market for the investments existed, and such differences could be material. The Master Fund has the ability to liquidate its investments periodically, subject to the provisions of the respective investment offering memorandum. Certain funds in which the Master Fund invests may, in accordance with the terms of their respective governing documents, impose "gating" or similar limitations on the Master Fund's ability to affect redemptions/withdrawals.

At 31 December 2017, the Master Fund invested in five funds, all of which are related parties. All investments are individually identified in the table below. The underlying funds may invest in US and non-US equity securities (both long and short), options, other equity derivatives and other securities in accordance with each investment fund's offering memorandum. The relationship between the Master Fund and the affiliate funds in which it is invested is disclosed in Note 5.

Brevan Howard AH Master Fund Limited has a notice period of three months and monthly liquidity.

Underlying Funds	% of Net Assets	Market Value US\$'000	Income US\$'000	Notice Period	Liquidity
Brevan Howard AH Master Fund Limited	9.58	461,458	(218,541)	3 months	Monthly
Brevan Howard Emerging Markets Strategies Master Fund Limited*	0.01	684	1	–	–
Brevan Howard Equity Strategies Master Fund Limited*	0.07	3,269	(53)	–	–
Brevan Howard Strategic Opportunities Fund Limited*	0.07	3,230	(34)	–	–
WCG Strategies Fund Limited*	0.01	458	(1)	–	–
	9.74	469,099	(218,628)		

* The normal trading operations of the above underlying funds have ceased prior to 2017.

As of 31 December 2017, the above underlying funds were all domiciled in the Cayman Islands.

The extent of liability related to the Master Fund's investments in each underlying fund is limited to the Master Fund's capital balance in such fund.

The Master Fund invests in share classes of the underlying funds where no management fee or performance fee are charged.

16. Subsequent events

For the year ended 31 December 2017, the Master Fund and its Subsidiaries evaluated subsequent events through 21 March 2018. No material events which would require to be disclosed or adjusted for in the Consolidated Financial Statements occurred during this period.

Affirmation of the Commodity Pool Operator

31 December 2017

To the best of my knowledge and belief, the information detailed in these annual audited Consolidated Financial Statements is accurate and complete.

By:



Name: Jonathan Wrigley

Title: Group Head of Finance and Authorised Signatory

Brevan Howard Capital Management Limited as general partner of Brevan Howard Capital Management LP, the manager and commodity pool operator of Brevan Howard Master Fund Limited.

21 March 2018

Notes

Notes

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