

BREVAN HOWARD

**BH MACRO LIMITED**

**MONTHLY SHAREHOLDER REPORT:  
JULY 2014**

**YOUR ATTENTION IS DRAWN TO THE DISCLAIMER AT THE END OF THIS DOCUMENT**

### BH Macro Limited Overview

**Manager:**

Brevan Howard  
Capital Management  
LP ("BHCM")

**Administrator:**

Northern Trust  
International Fund  
Administration  
Services (Guernsey)  
Limited ("Northern  
Trust")

**Corporate Broker:**

J.P. Morgan  
Cazenove

**Listings:**

London Stock  
Exchange (Premium  
Listing)  
NASDAQ Dubai -  
USD Class  
(Secondary listing)  
Bermuda Stock  
Exchange (Secondary  
listing)

BH Macro Limited ("BHM") is a closed-ended investment company, registered and incorporated in Guernsey on 17 January 2007 (Registration Number: 46235).

BHM invests all of its assets (net of short-term working capital) in the ordinary shares of Brevan Howard Master Fund Limited (the "Fund").

BHM was admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange on 14 March 2007.

**Total Assets:** \$1,980 mm<sup>1</sup>

1. Estimated as at 31 July 2014 by BHM's administrator, Northern Trust.

### Summary Information

#### BH Macro Limited NAV per Share (estimated as at 31 July 2014)

Share Class	NAV (USD mm)	NAV per Share
USD Shares	407.2	\$19.98
EUR Shares	151.9	€20.08
GBP Shares	1,420.7	£20.66

#### BH Macro Limited NAV per Share % Monthly Change

USD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007			0.10	0.90	0.15	2.29	2.56	3.11	5.92	0.03	2.96	0.75	20.27
2008	9.89	6.70	-2.79	-2.48	0.77	2.75	1.13	0.75	-3.13	2.76	3.75	-0.68	20.32
2009	5.06	2.78	1.17	0.13	3.14	-0.86	1.36	0.71	1.55	1.07	0.37	0.37	18.04
2010	-0.27	-1.50	0.04	1.45	0.32	1.38	-2.01	1.21	1.50	-0.33	-0.33	-0.49	0.91
2011	0.65	0.53	0.75	0.49	0.55	-0.58	2.19	6.18	0.40	-0.76	1.68	-0.47	12.04
2012	0.90	0.25	-0.40	-0.43	-1.77	-2.23	2.36	1.02	1.99	-0.36	0.92	1.66	3.86
2013	1.01	2.32	0.34	3.45	-0.10	-3.05	-0.83	-1.55	0.03	-0.55	1.35	0.40	2.70
2014	-1.36	-1.10	-0.40	-0.81	-0.08	-0.06	0.80*						-2.99*

EUR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007			0.05	0.70	0.02	2.26	2.43	3.07	5.65	-0.08	2.85	0.69	18.95
2008	9.92	6.68	-2.62	-2.34	0.86	2.84	1.28	0.98	-3.30	2.79	3.91	-0.45	21.65
2009	5.38	2.67	1.32	0.14	3.12	-0.82	1.33	0.71	1.48	1.05	0.35	0.40	18.36
2010	-0.30	-1.52	0.03	1.48	0.37	1.39	-1.93	1.25	1.38	-0.35	-0.34	-0.46	0.93
2011	0.71	0.57	0.78	0.52	0.65	-0.49	2.31	6.29	0.42	-0.69	1.80	-0.54	12.84
2012	0.91	0.25	-0.39	-0.46	-1.89	-2.20	2.40	0.97	1.94	-0.38	0.90	1.63	3.63
2013	0.97	2.38	0.31	3.34	-0.10	-2.98	-0.82	-1.55	0.01	-0.53	1.34	0.37	2.62
2014	-1.40	-1.06	-0.44	-0.75	-0.16	-0.09	0.69*						-3.17*

GBP	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007			0.11	0.83	0.17	2.28	2.55	3.26	5.92	0.04	3.08	0.89	20.67
2008	10.18	6.86	-2.61	-2.33	0.95	2.91	1.33	1.21	-2.99	2.84	4.23	-0.67	23.25
2009	5.19	2.86	1.18	0.05	3.03	-0.90	1.36	0.66	1.55	1.02	0.40	0.40	18.00
2010	-0.23	-1.54	0.06	1.45	0.36	1.39	-1.96	1.23	1.42	-0.35	-0.30	-0.45	1.03
2011	0.66	0.52	0.78	0.51	0.59	-0.56	2.22	6.24	0.39	-0.73	1.71	-0.46	12.34
2012	0.90	0.27	-0.37	-0.41	-1.80	-2.19	2.38	1.01	1.95	-0.35	0.94	1.66	3.94
2013	1.03	2.43	0.40	3.42	-0.08	-2.95	-0.80	-1.51	0.06	-0.55	1.36	0.41	3.09
2014	-1.35	-1.10	-0.34	-0.91	-0.18	-0.09	0.77*						-3.18*

Source: Fund NAV data is provided by the administrator of the Fund, International Fund Services (Ireland) Limited. BHM NAV and NAV per Share data is provided by BHM's administrator, Northern Trust. BHM NAV per Share % Monthly Change is calculated by BHCM. BHM NAV data is unaudited and net of all investment management fees (2% annual management fee and 20% performance fee) and all other fees and expenses payable by BHM. In addition, the Fund is subject to an operational services fee of 50bps per annum.

NAV performance is provided for information purposes only. Shares in BHM do not necessarily trade at a price equal to the prevailing NAV per Share.

\*Estimated as at 31 July 2014

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

### ASC 820 Asset Valuation Categorisation\*

### Brevan Howard Master Fund Limited

Unaudited Estimates as at 31 July 2014

	% of Gross Market Value*
Level 1	74.3
Level 2	25.4
Level 3	0.3

Source: BHCM

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

Level 1: This represents the level of assets in the portfolio which are priced using unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: This represents the level of assets in the portfolio which are priced using either (i) quoted prices that are identical or similar in markets that are not active or (ii) model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.

Level 3: This represents the level of assets in the portfolio which are priced or valued using inputs that are both significant to the fair value measurement and are not observable directly or indirectly in an active market.

### Performance Review for the Fund

The information in this section has been provided to BHM by BHCM.

During the month, the Fund made gains in FX trading and to lesser extent in USD interest rate trading. Small losses in EUR directional and curve interest rate trading were partially offset by gains in EUR asset swaps trading.

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

	Macro	Rates	FX	EMG	Equity	Commodity	Credit	Systematic	Discount Management	Total
July 2014	0.45	0.05	0.04	0.08	0.04	-0.03	-0.01	-0.00	0.18	0.80
Q1 2014	-3.23	-0.08	-0.03	-0.01	-0.06	0.02	0.55	-0.05	0.07	-2.83
Q2 2014	-1.84	0.13	-0.04	0.02	-0.09	0.02	0.20	-0.00	0.66	-0.95
QTD	0.45	0.05	0.04	0.08	0.04	-0.03	-0.01	-0.00	0.18	0.80
YTD 2014	-4.58	0.10	-0.03	0.09	-0.11	0.01	0.74	-0.05	0.90	-2.99

Monthly, quarter-to-date and year-to-date figures are estimated by BHCM as at 31 July 2014, based on total performance data for each period provided by the Fund's administrator, International Fund Services (Ireland) Limited. Figures rounded to two decimal places.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

#### Methodology and Definition of Monthly Contribution to Performance:

Attribution is approximate and has been derived by allocating each trader book in the Fund to a single category. In cases where a trader book has activity in more than one category, the most relevant category has been selected.

The above strategies are categorised as follows:

"Macro": multi-asset global markets, mainly directional (for the Fund, the majority of risk in this category is in rates)

"Rates": developed interest rates markets

"FX": global FX forwards and options

"EMG": global emerging markets

"Equity": global equity markets including indices and other derivatives

"Commodity": liquid commodity futures and options

"Credit": corporate and asset-backed indices, bonds and CDS

"Systematic": rules-based futures trading

### Manager's Market Review and Outlook

The information in this section has been provided to BHM by BHCM.

#### Market Commentary

##### US

The tension between weak growth and strong hiring was partly resolved by a solid increase in second-quarter real GDP growth. The economy expanded at a 4% annualised pace, making up some ground after the pothole in the first quarter. Taken together, growth was still less than 1% at an annualised rate in the first half of the year. However the longer view is more flattering as it smooths through some of the volatility in the data. Growth last year was revised up to more than 3% and was 2.4% in the most recent four-quarter period.

The latest indicators of aggregate demand point to another respectable if unspectacular quarter of growth. Consumer confidence is sturdy and spending data are mixed, with robust purchases of motor vehicles and a little slowing in retail sales in July. Forward-looking indicators of capital spending were solid, suggesting a reacceleration in capex. Generally, business surveys are robust with almost every major sector of the economy reporting growth. Housing has been a source of disappointment. However, there are reasons to be cautiously optimistic for better outturns. Mortgage rates have fallen noticeably and banks have reported easing credit standards and higher demand for mortgages. With inventories

still tight and house prices moderating, demand for new and existing homes should pick up.

Inflation has firmed lately, with core PCE prices rising more than 2% at an annualised rate in the last three months, bringing the year-over-year change to 1.5%. That is still well below the Federal Reserve's inflation target of 2%. However, the trend is in the right direction. Meanwhile, wages - which have taken on special importance in policy circles as a signal of the degree of underutilised labour resources - have been increasing modestly. While some of the softness evidenced at the start of the year appears to have been transitory, various measures suggest wages are accelerating only gently.

In terms of policy, the Fed appears more optimistic about the outlook. But key policy makers want to take a wait-and-see approach given all the false dawns and negative shocks seen during the expansion. We expect rate hikes to begin sometime in the middle of next year and the consensus seems to be narrowing into the same time frame. The Fed has signalled that it is generally comfortable with these expectations with, for example, Chair Yellen describing in congressional testimony a hiking cycle that ends next year with the Fed funds rate around 1%.

### **EMU**

In the second quarter, EMU growth was softer than expected by both the market and the ECB. Overall, however, it seems the EMU economy reached a cyclical peak at the turn of the year and that momentum has been moderating since. The heightened geopolitical tensions - stemming especially from rising trade tensions with Russia - are a source of further uncertainty on the near-term economic prospects in the eurozone. On the price front, HICP inflation fell in July from 0.5% to 0.4% y/y, thus significantly undershooting - again - the forecast profile presented by the ECB in June. On the monetary side, bank lending is showing initial signs of picking up, supported by less restrictive supply conditions. The finalisation of the ECB's Asset Quality Review in the coming weeks and months and the new T-LTRO tenders starting in September should provide further support.

In its August policy meeting, the ECB did not feel compelled to send any new policy signals. The ECB remains firmly in a wait and see mode, with some already announced additional policy measures still in the pipeline and exceptionally high uncertainty clouding the economic outlook. Should downside risks to growth and inflation materialise, however, the ECB has stated it is ready to act, with purchases of both ABS and sovereign bonds being options. ECB President Draghi also noted that the June policy package, and in particular the negative deposit facility rate, had led to an easing of the policy stance, helping to bring the value of the Euro close to its fundamental.

### **UK**

The ongoing theme in the UK data is strong growth with benign inflation. Most monthly business indicators over the past months have stabilised at high levels or eased back slightly, but have generally remained resilient, pointing to GDP growth slowing from just above 3% to just below 3%. The two most important pieces of news relative to a few months ago are the growing disparity between record-high employment growth and record-weak wage growth, and some early signs that the housing market is losing momentum.

Employment growth has been more than 3% over the past year, a pace not seen in 25

years. This employment growth has been accompanied by a sharp decline in unemployment, and a stable to slightly rising participation rate. But underlying wage growth has been very weak on the official data, at a record-low pace of slightly below 1%, contrary to expectations of a pick-up to 2.5-3%. Some other indicators do suggest upward wage pressure, notably surveys of recruitment firms, and survey of the BoE's regional contacts. But these surveys are biased toward newly hired employees, and say less about the wage growth that existing employees experience. One analysis consistent with these findings of strong employment and weak wages is that there has been a significant increase in labour supply from younger workers facing less generous benefits, older workers facing less generous pensions, and EU workers facing high unemployment in their home countries. This has kept wage bargaining power very low. Productivity growth is still approximately zero, as 3% GDP growth has been matched by 3% employment growth. 3% GDP growth has been supported in equal measures by consumption and investment. Household income growth has supported most of the consumption growth (i.e. savings are no longer falling rapidly), but the income growth itself comes entirely from employment growth, as real wages are still slightly declining. A second recent development has been some signs of loss of momentum in the housing market.

The BoE may have inadvertently tightened mortgage supply more than it wanted to. The Mortgage Market Review, which recommended the introduction of loan to income caps and affordability caps, was not supposed to be binding, but banks are being quite conservative and want to stay well inside the BoE's guidance. The fear of future property tax changes (for example, the so-called "mansion tax" and higher council tax bands) might also be a factor now that the election is approaching. There are now signs of slowing or even falling housing activity, and potentially slowing price gains ahead. London is more exposed, because prices have risen sharply relative to rest of the UK and because the supply response of new properties has been larger as a result. Given the importance of the housing recovery as catalyst for overall recovery, a housing slowdown could result in a more broad-based growth slowdown in the year ahead. The BoE needs to weigh up the conflicting signs of rapid employment growth, but weak wage growth and a slowing housing market. With rates so low, and full employment potentially only a year away (though longer in the BoE's central view), there is rising pressure to begin the hiking cycle, though probably not until next year. The subsequent pace of rate hikes is highly uncertain, and will depend on the true state of slack, further labour supply developments, and the extent of the growth slowdown.

### **Japan**

Prime Minister Abe's third arrow continues to fly, but at a spectacularly slow speed. News reports over the last month indicated that Japan's public pension fund will boost its weighting for domestic stocks to 20% or more, a decision investors have been waiting on for quite a while since it was first proposed. A final decision is expected in September, though that date seems to be slipping through the month in various media reports. Still to be determined is the exact allocation limit; 20% would seem to be a lower bound now. The other news involves the Trans-Pacific Partnership talks, whose progress is glacial even in comparison to the public pension fund developments. Japan and the United States have committed to release market-access terms in October. Once the two largest economies agree to market-access terms, this should facilitate the rest to fall in line. That would clear the way for the rest of the multilateral negotiations to conclude. There are other obstacles, most importantly, US Congress passing Trade Promotion Authority ("fast-track legislation"),

that could still scupper a final deal.

If the third arrow seems to defy the physics of stall speed, the first arrow has stopped in midair. The Bank of Japan (“BoJ”) has held its pace of bond buying steady. Despite an acknowledged weakening in production and exports, the BoJ Governor Kuroda maintained that domestic demand is recovering from the tax-induced pothole and that inflation continues on track to achieve the price stability target of 2%. Progress on the economic front, however, has been very uneven overall. The seasonally adjusted western core price index, which is regarded by many as the best summary measure of the incremental improvement in the trend in inflation, moved up 0.1% in each of the last two months. That is better than the first quarter of the year, though it obviously is far away from a 2% annual rate. Tokyo prices have fared worse, only ticking up once in the three months after the April consumption tax hike. Consumer inflation expectations continue to slip after peaking in February. A sampling of measures of economic activity also looks relatively downbeat. The Economic Watchers’ survey of current conditions improved in June and noticeably more in July, but even then the index is still a little lower than the level seen before the consumption tax hike. The Shoko-Chukin survey of small and medium-sized enterprises was flat in August at a level noticeably below the first quarter of 2014 average. Industrial production dropped in June.

### **China**

In China, there are early indications that the pace of the cyclical rebound which started towards the end of the first quarter of 2014 may be approaching a peak. On the survey side, the composite HSBC PMI fell from 52.4 in June to 51.6 in July, as the further improvement in the HSBC manufacturing PMI from 50.7 in June to 51.7 in July was more than offset by a large drop of the HSBC services PMI, from 53.1 to 50.0, an all-time low; the PMIs published by the National Bureau of Statistics showed directionally similar developments. Actual activity indicators also somewhat slowed in July. In July, China’s FAI grew by 17% y/y YTD, below the June figure of 17.3% y/y YTD and the consensus of 17.4%. Infrastructure has continued to lead the acceleration in investment, but it was not enough to offset the persistent softness in the manufacturing sector. This confirms that the recent recovery in growth is a policy-driven one, while the outlook of the private sector has not seen much improvement. In addition, industrial production grew by 9% y/y, lower than the consensus and the June figure of 9.2%, though part of the decline was due to a high base.

Another notable development is the pace of expansion in total social financing (“TSF”), which recorded an “abrupt” decline in July, from a monthly increase of nearly RMB 2 trillion in June to just RMB 273bn in July, and also well below the consensus figure of RMB 1.5 trillion. The deceleration was broadly based in most categories, with bank loans and shadow banking items contributing most. At this stage, the deceleration in TSF should not be viewed as a turnaround in PBoC’s policy stance. The PBoC may have become more cautious regarding the rebound in the shadow banking financing in the past few months, but it is unlikely that the PBoC are targeting a monetary tightening as dramatic as the TSF data suggested.

On the external side, China recorded a strong export growth of 14.5% in July, making July’s exports at \$213bn a record high. The breakdown of exports suggest that the strong growth was likely explained by improved external demand, more working days in July, and possibly some ad hoc factors. However, imports slowed from 5.5% y/y in June to -1.6% y/y in July, below the expectation of a 2.6% y/y expansion. Consequently, the trade balance recorded a

strong figure of \$47.4bn compared with \$31.6bn in June.

### Enquiries

**Northern Trust International Fund Administration Services (Guernsey) Limited**

Harry Rouillard +44 (0) 1481 74 5315

**Important Legal Information and Disclaimer**

BH Macro Limited ("BHM") is a feeder fund investing in Brevan Howard Master Fund Limited (the "Fund"). Brevan Howard Capital Management LP ("BHCM") has supplied certain information herein regarding BHM's and the Fund's performance and outlook.

The material relating to BHM and the Fund included in this report is provided for information purposes only, does not constitute an invitation or offer to subscribe for or purchase shares in BHM or the Fund and is not intended to constitute "marketing" of either BHM or the Fund as such term is understood for the purposes of the Alternative Investment Fund Managers Directive as it has been implemented in states of the European Economic Area. This material is not intended to provide a sufficient basis on which to make an investment decision. Information and opinions presented in this material relating to BHM and the Fund have been obtained or derived from sources believed to be reliable, but none of BHM, the Fund or BHCM make any representation as to their accuracy or completeness. Any estimates may be subject to error and significant fluctuation, especially during periods of high market volatility or disruption. Any estimates should be taken as indicative values only and no reliance should be placed on them. Estimated results, performance or achievements may materially differ from any actual results, performance or achievements. Except as required by applicable law, BHM, the Fund and BHCM expressly disclaim any obligations to update or revise such estimates to reflect any change in expectations, new information, subsequent events or otherwise.

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

You should note that, if you invest in BHM, your capital will be at risk and you may therefore lose some or all of any amount that you choose to invest. This material is not intended to constitute, and should not be construed as, investment advice. All investments are subject to risk. You are advised to seek expert legal, financial, tax and other professional advice before making any investment decisions.

**THE VALUE OF INVESTMENTS CAN GO DOWN AS WELL AS UP. YOU MAY NOT GET BACK THE AMOUNT ORIGINALLY INVESTED AND YOU MAY LOSE ALL OF YOUR INVESTMENT. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RESULTS.**

### Risk Factors

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

- The Fund is speculative and involves substantial risk.
- The Fund will be leveraged and will engage in speculative investment practices that may increase the risk of investment loss. The Fund may invest in illiquid securities.
- Past results of the Fund's investment managers are not necessarily indicative of future performance of the Fund, and the Fund's performance may be volatile.
- An investor could lose all or a substantial amount of his or her investment.
- The Fund's investment managers have total investment and trading authority over the Fund, and the Fund is dependent upon the services of the investment managers.
- Investments in the Fund are subject to restrictions on withdrawal or redemption and should be considered illiquid. There is no secondary market for investors' interests in the Fund and none is expected to develop.
- The investment managers' incentive compensation, fees and expenses may offset the Fund's trading and investment profits.
- The Fund is not required to provide periodic pricing or valuation information to investors with respect to individual investments.
- The Fund is not subject to the same regulatory requirements as mutual funds.
- A portion of the trades executed for the Fund may take place on foreign markets.
- The Fund and its investment managers are subject to conflicts of interest.
- The Fund is dependent on the services of certain key personnel, and, were certain or all of them to become unavailable, the Fund may prematurely terminate.
- The Fund's managers will receive performance-based compensation. Such compensation may give such managers an incentive to make riskier investments than they otherwise would.
- The Fund may make investments in securities of issuers in emerging markets. Investment in emerging markets involve particular risks, such as less strict market regulation, increased likelihood of severe inflation, unstable currencies, war, expropriation of property, limitations on foreign investments, increased market volatility, less favourable or unstable tax provisions, illiquid markets and social and political upheaval.

The above summary risk factors do not purport to be a complete description of the relevant risks of an investment in shares of BHM or the Fund and therefore reference should be made to publicly available documents and information.