

BREVAN HOWARD

**BH MACRO LIMITED**  
**MONTHLY SHAREHOLDER REPORT:**  
**SEPTEMBER 2018**

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

### BH Macro Limited Overview

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

Brevan Howard  
Capital Management  
LP (“BHCM”)

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

**Administrator:**

Northern Trust  
International Fund  
Administration  
Services (Guernsey)  
Limited (“Northern  
Trust”)

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.

**Corporate Broker:**

J.P. Morgan  
Cazenove

**Total Assets:** \$502 mm<sup>1</sup>

1. As at 28 September 2018. Source: BHM's administrator, Northern Trust.

**Listing:**

London Stock  
Exchange (Premium  
Listing)

### Summary Information

#### BH Macro Limited NAV per Share (Calculated as at 28 September 2018)

Share Class	NAV (USD mm)	NAV per Share
USD Shares	64.9	\$24.15
GBP Shares	436.7	£23.72

#### 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	0.85	0.01	3.96	-1.73	1.00	-0.05	0.11
2015	3.14	-0.60	0.36	-1.28	0.93	-1.01	0.32	-0.78	-0.64	-0.59	2.36	-3.48	-1.42
2016	0.71	0.73	-1.77	-0.82	-0.28	3.61	-0.99	-0.17	-0.37	0.77	5.02	0.19	6.63
2017	-1.47	1.91	-2.84	3.84	-0.60	-1.39	1.54	0.19	-0.78	-0.84	0.20	0.11	-0.30
2018	2.54	-0.38	-1.54	1.07	8.41	-0.57	0.91	0.90	0.14				11.72

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	0.82	0.04	4.29	-1.70	0.96	-0.04	0.26
2015	3.26	-0.58	0.38	-1.20	0.97	-0.93	0.37	-0.74	-0.63	-0.49	2.27	-3.39	-0.86
2016	0.60	0.70	-1.78	-0.82	-0.30	3.31	-0.99	-0.10	-0.68	0.80	5.05	0.05	5.79
2017	-1.54	1.86	-2.95	0.59	-0.68	-1.48	1.47	0.09	-0.79	-0.96	0.09	-0.06	-4.35
2018	2.36	-0.51	-1.68	1.01	8.19	-0.66	0.82	0.79	0.04				10.50

Source: Fund NAV data is provided by the administrator of the Fund, International Fund Services (Ireland) Limited ("IFS"). 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 and all other fees and expenses payable by BHM. In addition, the Fund is subject to an operational services fee.

With effect from 1 April 2017, the management fee is 0.5% per annum. BHM's investment in the Fund is subject to an operational services fee of 0.5% per annum.

No management fee or operational services fee is charged in respect of performance related growth of NAV for each class of share in excess of its level on 1 April 2017 as if the tender offer commenced by BHM on 27 January 2017 had completed on 1 April 2017.

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.

Data as at 28 September 2018

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

**ASC 820 Asset  
Valuation  
Categorisation on  
a non look-  
through basis\***

**Brevan Howard Master Fund Limited**

Unaudited as at 28 September 2018

	% of Gross Market Value*
<b>Level 1</b>	45.8
<b>Level 2</b>	16.6
<b>Level 3</b>	0.0
<b>At NAV</b>	37.6

Source: BHCM

\* This data is unaudited and has been calculated by BHCM using the same methodology as that used in the most recent audited financial statements of the Fund. The relative size of each category is subject to change. Sum may not total 100% due to rounding.

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.

At NAV: This represents the level of assets in the portfolio that are invested in other Brevan Howard funds and priced or valued at NAV.

**ASC 820 Asset  
Valuation  
Categorisation on  
a look-through  
basis\***

	% of Gross Market Value*
<b>Level 1</b>	76.1
<b>Level 2</b>	23.8
<b>Level 3</b>	0.0

Source: BHCM

\* This data reflects the combined ASC 820 levels of the Fund and the underlying allocations in which the Fund is invested, proportional to each of the underlying allocation's weighting in the Fund's portfolio. The data is unaudited and has been calculated by BHCM using the same methodology as that used in the most recent audited financial statements of the Fund and any underlying funds (as the case may be). The relative size of each category is subject to change. Sum may not total 100% due to rounding.

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

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

Gains in September from directional trading of U.S. interest rates were largely offset by losses from European government bond trading. Further modest gains were generated by directional and volatility trading strategies in FX, while small losses were generated by equity and credit index trading strategies.

The performance review and attributions are derived from data calculated by BHCM, based on total performance data for each period provided by the Fund's administrator (IFS) and risk data provided by BHCM, as at 28 September 2018.

### Performance by Asset Class

#### Monthly, quarterly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by asset class as at 28 September 2018

2018	Rates	FX	Commodity	Credit	Equity	Total
September 2018	0.15	0.23	0.01	-0.13	-0.13	0.14
Q1 2018	0.93	-0.20	0.01	-0.06	-0.07	0.58
Q2 2018	8.54	0.46	-0.02	0.02	-0.02	8.94
Q3 2018	1.70	0.89	-0.06	-0.23	-0.35	1.95
YTD 2018	11.41	1.14	-0.06	-0.26	-0.44	11.72

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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

Attribution by asset class is produced at the instrument level, with adjustments made based on risk estimates.

The above asset classes are categorised as follows:

"Rates": interest rates markets

"FX": FX forwards and options

"Commodity": commodity futures and options

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

"Equity": equity markets including indices and other derivatives

### Performance by Strategy Group

#### Monthly, quarterly and annual contribution (%) to the performance of BHM USD Shares (net of fees and expenses) by strategy group as at 28 September 2018

2018	Macro	Systematic	Rates	FX	Equity	Credit	EMG	Commodity	Total
September 2018	-0.07	-0.04	0.29	0.10	-0.00	-0.01	-0.13	-0.00	0.14
Q1 2018	0.87	0.02	-0.46	-0.09	-0.00	-0.03	0.28	-0.00	0.58
Q2 2018	4.29	0.05	2.91	0.34	-0.00	-0.06	1.33	-0.00	8.94
Q3 2018	-1.09	0.02	2.10	0.58	-0.00	0.00	0.35	-0.00	1.95
YTD 2018	4.06	0.09	4.59	0.82	-0.00	-0.08	1.96	-0.00	11.72

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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

Strategy Group 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)

"Systematic": rules-based futures trading

"Rates": developed interest rates markets

"FX": global FX forwards and options

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

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

"EMG": global emerging markets

"Commodity": liquid commodity futures and options

**Manager's Market Review and Outlook** The information in this section has been provided to BHM by BHCM

## US

The historically strong labour market displayed continued momentum in September. The unemployment rate dropped to a nearly 50-year low of 3.7% and headline job gains were strong on average over the last three months. After having languished for most of the business cycle, wage gains are picking up, with average hourly earnings rising at an annual rate of 3% so far this year.

Growth in Q3 was solid, tracking above 3% at an annual rate. Consumption spending is solid and business investment is well-maintained. Housing is a relatively weak spot and we believe that this will probably move sideways at best, as mortgage rates have risen by 50bps over the last few months. Trade and inventory investment are shifting around the headline GDP number, but we believe that smoothing through the volatility should add to growth in the coming quarters.

Inflation disappointed in September. Core consumer prices rose by 0.1% for the second month in a row. We believe that some of this disappointment owed to a technical distortion in seasonally adjusted used car prices. Nevertheless, the Federal Reserve's ("Fed") preferred measure of inflation, the core personal consumption expenditures index, remained at 2% over the last year.

Monetary policy appears to be on autopilot with the economy operating above its long-run sustainable pace and inflation near the Fed's target. Although the neutral interest rate is uncertain, most policy makers point to a narrow range between 2.75% to 3.0%, which is still a few rate hikes away, even after September's increase. It is our belief that President Trump's unprecedented attacks on the Fed will probably make the near-term path of rate hikes more certain. Elsewhere in Washington, the US, Mexico and Canada agreed to refresh the North American Free Trade Agreement ("NAFTA") with a new name, the United States-Mexico-Canada Agreement ("USMCA"), and some tweaks around the edges.

## UK

Economic activity in the UK has continued to grow at a moderate pace and we believe that this was likely supported by temporary factors in the most recent quarter. However, the uncertainty around Brexit, and the moderation of activity in Europe may pose some challenges. According to the Office for National Statistics, the economy grew by 0.7% 3m/3m in August, still supported by robust growth within the services sector, which contributed 0.45ppts. A rebound in construction activity contributed around 0.15ppts, after having been a 0.2ppt drag previously. Industrial output has also improved of late, adding another 0.1ppts to growth over the past three months. Currently, GDP is expected to grow at 0.6% q/q in Q3, up from the 0.4% seen in Q2. However, in our view growth in Q3 was likely supported by temporary factors including inventory building ahead of Brexit, as well as improved consumer sentiment due to the World Cup. Looking ahead, business sentiment within the manufacturing sector rose in September, but only after moderating markedly over the year, reflecting, in our view, both a slow-down in activity in Europe, as well as increased uncertainty around the prospects of a no-deal Brexit. Business sentiment for the services industry (which accounts for approximately 80% of the economy) continues to move sideways. Should business sentiment continue to hold, it is our belief that GDP should continue to grow at an average pace of around 0.4% q/q going forward, which should be enough to absorb the little remaining slack in the economy. Meanwhile, the unemployment rate continues to make new multi-decade lows, recording 4.0% in July (unchanged from the previous month), and jointly the lowest rate since 1975. We believe that robust employment should support consumption; for example, although retail sales fell 0.75% in September, over the year they are growing at a pace of 3.2% y/y, up from the lows of 1.0% last year. However, we believe that the softness in the housing market may still act as a drag; house price growth remains positive at the national level, but activity indicators remain modest.

Moreover, we believe that tighter conditions around consumer lending may also act as a headwind to consumption. Overall, the tightness in the labour market should continue to put upward pressure on wage growth. Excluding bonuses, wage growth is averaging a pace of 3.1% 3m/12m in August, making a new post-crisis high. Wage pressure should, in our view, in turn cause inflation to pick up. Most recently, headline inflation fell by 0.2ppts to 2.4% y/y in September whilst core inflation fell by 0.2ppts to 1.9% y/y, partially unwinding the 0.3ppts jump in the previous month.

The combination of moderate activity, a tight labour market, and building wage pressure has, in our view, caused the Bank of England to project inflation to remain above 2% for most of the projection horizon. It was in this light that the Monetary Policy Committee ("MPC") voted unanimously to raise the official bank rate by 0.25ppts to 0.75% in August. Following this, the MPC voted to keep the policy rate unchanged at the September meeting. The minutes had highlighted the further improvements made in the labour market and the MPC revised up its Q3 GDP forecast by 0.1ppts to 0.5% q/q, however it also highlighted the increased concern among businesses around the prospects of a 'no-deal' Brexit, as well as the moderation in external growth. The key messaging from the MPC's statement was left broadly unchanged: "were the economy to continue to develop broadly in line with [the Bank's] Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target at a conventional horizon. Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent."

The state of the Brexit negotiations remains a key risk to the economic outlook. Relationships between the EU and the UK seem to have improved since the Salzburg meeting. In a recent interview the EU Commission President Jean Claude Juncker noted that "the potential for rapprochement between both sides has increased in recent days", and was optimistic that a deal would be reached by November. The main difficulty around the withdrawal bill, which if agreed would ensure a transition period, is still centered on the Irish border; both parties wish to avoid a hard border in Ireland. In order to do so, the EU has proposed a backstop to keep Northern Ireland within the Customs Union and large parts of the market, effectively putting a border between Northern Ireland and Great Britain. However, such a proposal would divide the UK from the UK's perspective. It is also unclear whether such a proposal would get a parliamentary majority, given the Democratic Unionist Party's opposition to an 'Irish Sea Border'. Regardless, at this stage, there does not appear to be a parliamentary majority for any single brand of Brexit.

## **EMU**

The EMU Composite Purchasing Managers' Index ("PMI") fell in September, which is a further blow to the recovery envisaged by both the consensus and European Central Bank ("ECB"). Not only was the Composite PMI on average lower in Q3 than in Q2, but it also ended the quarter on a softer note, thus raising the risk of further disappointment in Q4. Although industrial production ("IP") increased by 1% m/m in August, so far in Q3 the level of IP remains 0.2% below the Q2 average. Regarding consumer prices, headline Harmonised Index of Consumer Prices ("HICP") inflation edged up to 2.07% y/y in September, from 2.03% in August. Core inflation fell from 0.94% in August to 0.91% in September, the lowest level since April. In our view, core inflation remains at a level that is quite troubling from an ECB perspective, and is already threatening the ECB's staff forecast of 1.1% for 2018. There are still no signs of the "relatively vigorous" pickup in underlying inflation that President Mario Draghi highlighted before the European Parliament's Economic and Monetary Affairs Committee, the predicted effects of which are contained within the ECB forecast. In fact, we believe that core inflation continues to show that no meaningful convergence is in place towards the ECB's definition of price stability.

After having halved the pace of monthly net purchases of bonds to €15bn from October to December, current activity and core inflation trends in the EMU economy make it difficult, in our view, to justify the ECB's decision to, subject to conditions, end net quantitative easing

("QE") purchases in December on economic grounds. However, the bar to change the decision appears quite high. As such, next year the fine tuning of monetary policy for the achievement of the price target will, in our view, depend solely on the decision concerning interest rates and forward guidance. Currently the Governing Council expect the key interest rates to remain at their present levels, at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels in line with its aim.

### **Japan**

The EMU Composite Purchasing Managers' Index ("PMI") fell in September, which is a further blow to the recovery envisaged by both the consensus and European Central Bank ("ECB"). Not only was the Composite PMI on average lower in Q3 than in Q2, but it also ended the quarter on a softer note, thus raising the risk of further disappointment in Q4. Although industrial production ("IP") increased by 1% m/m in August, so far in Q3 the level of IP remains 0.2% below the Q2 average. Regarding consumer prices, headline Harmonised Index of Consumer Prices ("HICP") inflation edged up to 2.07% y/y in September, from 2.03% in August. In our view, core inflation fell from 0.94% in August to 0.91% in September, the lowest level since April. Core inflation remains at a level that is quite troubling from an ECB perspective, and is already threatening the ECB's staff forecast of 1.1% for 2018. There are still no signs of the "relatively vigorous" pickup in underlying inflation that President Mario Draghi highlighted before the European Parliament's Economic and Monetary Affairs Committee, the predicted effects of which are contained within the ECB forecast. In fact, we believe that core inflation continues to show that no meaningful convergence is in place towards the ECB's definition of price stability.

After having halved the pace of monthly net purchases of bonds to €15bn from October to December, current activity and core inflation trends in the EMU economy make it difficult, in our view, to justify the ECB's decision to, subject to conditions, end net quantitative easing ("QE") purchases in December on economic grounds. However, the bar to change the decision appears quite high. As such, next year the fine tuning of monetary policy for the achievement of the price target will, in our view, depend solely on the decision concerning interest rates and forward guidance. Currently the Governing Council expect the key interest rates to remain at their present levels, at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels in line with its aim.

### **Enquiries**

#### **The Company Secretary**

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

[bhfa@ntrs.com](mailto:bhfa@ntrs.com)

+44 (0) 1481 745736

**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.