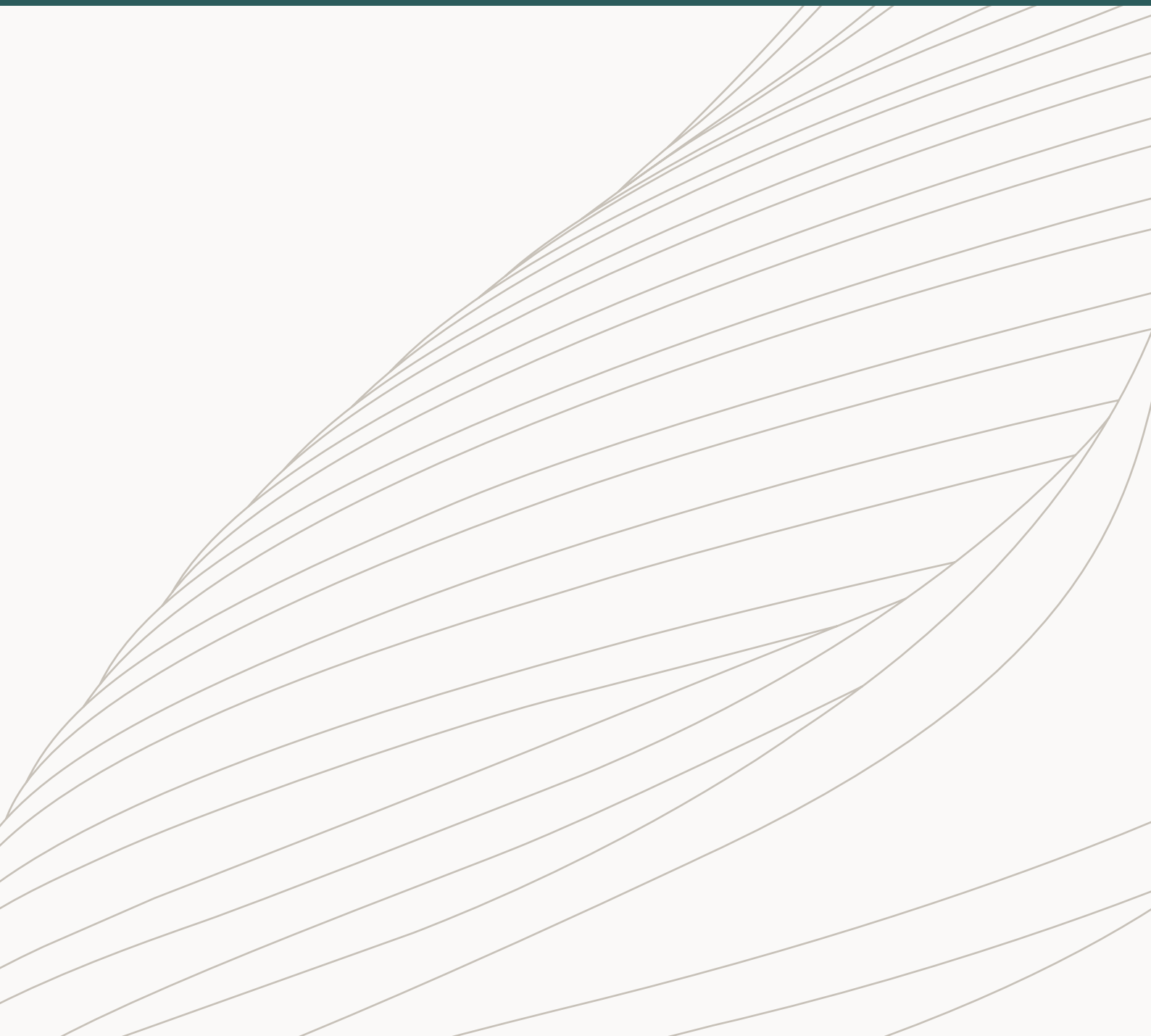


# BH MACRO LIMITED



## ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS 2019

31 December 2019

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Brevar Howard Capital Management LP, the manager and commodity pool operator of BH Macro Limited, has filed a claim of exemption with the Commodity Futures Trading Commission in respect of BH Macro Limited pursuant to Section 4.7 of the CFTC regulations.

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## CHAIRMAN'S STATEMENT

I am delighted to present this annual report to you for the first time as Chairman of BH Macro Limited (the "Company"). The Company has seen another year of creditable performance in increasingly turbulent times.

In the year to 31 December 2019, the Net Asset Value ("NAV") per Sterling share in the Company increased by 7.98% and the NAV per US Dollar share increased by 9.38%. The price of a Sterling share increased by 10.00% over the year and a US Dollar share by 11.38%.

The Company's NAV performance is directly related to the performance of Brevan Howard Master Fund Limited (the "Master Fund") into which the Company invests substantially all of its assets. Following a very strong performance in 2018, the Master Fund again performed creditably in 2019.

As detailed within the Tender Offer which completed in May 2017, the Company and the Manager made the following changes to the Management Agreement and the terms of the Company's investment in the Master Fund from 1 April 2019:

- The notice period for termination of the Management Agreement without cause by either the Company or the Manager has been reduced from 24 months to three months.
- The Company is again permitted to redeem its investment in the Master Fund to finance share buy-backs.

In addition, the Company's previous class closure and annual partial capital return provisions have been reinstated and are applicable in respect of twelve month periods ending on 31 December 2019 and thereafter except that the relevant trigger for the class closure provisions is now an eight per cent average discount to the net asset value of the relevant class of shares over the relevant period, instead of the previous ten per cent threshold. During 2019 the average premium at which the Company's shares traded in relation to monthly NAV was 1.15% for the US Dollar share class and 0.44% for the Sterling share class. Consequently, the class closure provisions have not been triggered in respect of 2019.

Prior to the Tender Offer, the Company used share buy-backs as one mechanism to reduce the discount at which the shares traded to NAV. If the Company's shares were again to trade at wide discounts to NAV in the future, it would be the Board's intention to consider resuming this process.

The Manager's Report on pages 20 to 23 provides commentary on the performance of the Master Fund in 2019 and the Manager's view of the economic outlook. Against this background, the Board has continued its regular dialogue with the Manager, reviewing the Master Fund's trading strategies and risk exposures and satisfying itself that the Manager's analytical, trading and risk management capabilities continue to be maintained at a high standard.

The Company and its Manager have an active programme for public communication and investor relations. There was particular interest from the press following the Company's strong performance in 2018, and your Board, the Manager and the Company's other advisers actively engaged with existing and potential shareholders during the year. Up-to-date performance information is provided through NAV data published monthly on a definitive basis and weekly on an estimated basis, as well as through monthly risk reports and shareholder reports. All these reports and further information about the Company are available on its website ([www.bhmacro.com](http://www.bhmacro.com)).

The Board is independent of the Brevan Howard group. The Directors are very focused on safeguarding the interests of Shareholders and believe that the Company observes high standards of corporate governance. In 2018 the Board commissioned an external evaluation of its performance which confirmed that the Board works in a collegiate, harmonious and effective manner. Further to its recommendations, and in anticipation of the retirement of Huw Evans after nine years' service on the Board, we instigated in early 2019 a process of recruitment and renewal, with the assistance of Cornforth Consulting Limited, following which we were delighted to appoint Richard Horlick and Bronwyn Curtis to join the Board respectively in May 2019 and January 2020. I would like to take this further opportunity to thank Huw for his years of conscientious service and wise counsel as a Director and latterly as Chairman of your Company.

It remains the case, as the Board recognises, that the performance of the Master Fund will be important in justifying the future of the Company. There are now clear signs that investors are focusing closely on the global political and economic uncertainties lying ahead; the alarming trajectory of the COVID-19 pandemic has exacerbated these further. The benign investment environment which has prevailed for a number of years appears, finally, to have come to an end and the increased volatility arising from this should present further opportunities for the Master Fund's macro-trading strategies.

## CHAIRMAN'S STATEMENT CONTINUED

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The events of the past year support the hypothesis that the Company's investment in the Master Fund provides a listed vehicle whose performance is uncorrelated with other asset classes. Through the narrowing of the discount in 2018 and the emergence of a premium in 2019, shareholders have demonstrated that they find the shares in the Company a valuable tool for portfolio diversification and I would like to take this opportunity to thank them for this continuing support.

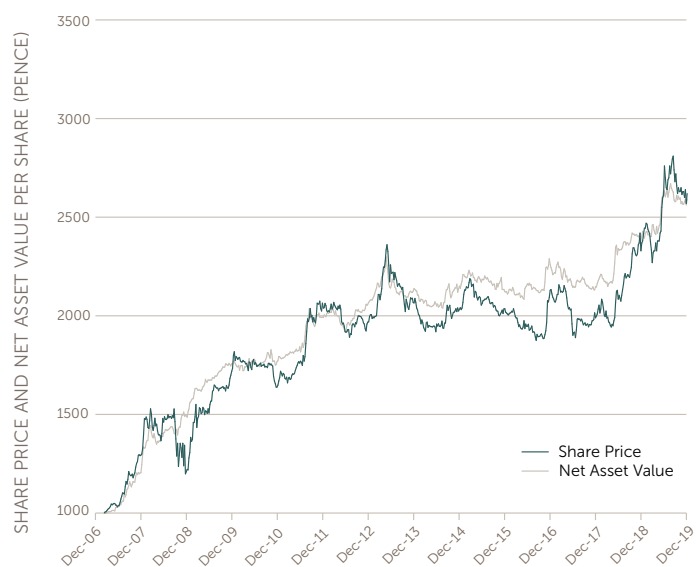
Colin Maltby

**CHAIRMAN**

24 March 2020

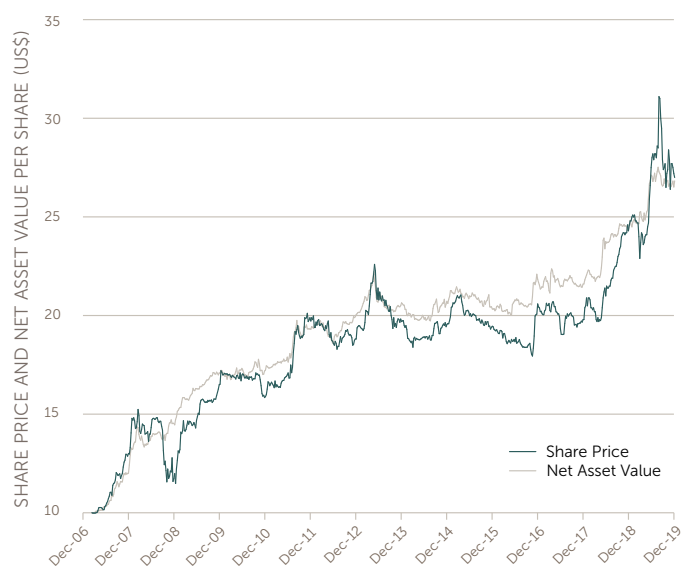
## STERLING SHARES

## SHARE PRICE VS NET ASSET VALUE PER SHARE



## US DOLLAR SHARES

## SHARE PRICE VS NET ASSET VALUE PER SHARE



## BOARD MEMBERS

The Directors of the Company, all of whom are non-executive, are listed below:

### **Colin Maltby, age 69, (appointed Chairman on 20 June 2019)**

Colin Maltby is a resident of Switzerland. His career in investment management began in 1975 with NM Rothschild & Sons and included 15 years with the Kleinwort Benson Group, of which he was a Group Chief Executive at the time of its acquisition by Dresdner Bank AG in 1995. Mr Maltby was Chief Executive of Kleinwort Benson Investment Management from 1988 to 1995, Chief Investment Officer of Equitas Limited from its formation in 1996, and Head of Investments at BP from August 2000 to June 2007. He has served as a non-executive Director of various public companies and agencies and as an adviser to numerous institutional investors, including pension funds and insurance companies, and to private equity and venture capital funds in both Europe and the United States. He holds a Double First Class Honours degree in Physics from the University of Oxford and also studied at the Stanford University Graduate School of Business. He is a Fellow of Wolfson College, Oxford and of the Royal Society of Arts and a member of the Institut National Genevois. Mr Maltby was appointed to the Board in June 2015.

### **Bronwyn Curtis, age 71 (appointed 1 January 2020)**

Bronwyn Curtis is a UK resident and Senior Executive with 30 years leadership across banking, media, commodities and consulting, with global or European wide responsibilities for 20 years, including at HSBC Bank Plc, Bloomberg LP, Nomura International and Deutsche Bank Group. She is presently a non-executive Director at the UK Office of Budget Responsibility and at Pershing Square Holdings, The Scottish American Investment Company Plc and JPMorgan Asia Growth and Income Plc, and is a regular commentator in the media on markets and economics. Ms Curtis is a UK resident.

### **Richard Horlick, age 61 (appointed 1 May 2019)**

Richard Horlick is UK resident. He is currently the non-executive chairman of CCLA Investment Management which manages £10bn of assets for over 38,000 charities and church and local authority funds. He has served on a number of closed end fund boards most recently Pacific Assets Trusts Plc from December 2005 until June 2014 and Tau Capital Plc from May 2007 to January 2014. He was a partner and non-executive chairman of Pensato Capital LLP until its successful sale to RWC Partners in 2017. He has had a long and distinguished career in investment management graduating from Cambridge University in 1980 with an MA in Modern History. After 3 years in the corporate finance department of Samuel Montagu he joined Newton Investment Management in January 1984 where he became a Director and portfolio manager. In 1994 he joined Fidelity International as President of their institutional

business outside the US and in 2001 became President and CEO of Fidelity Management Trust Company in Boston which was the Trust Bank for the US Fidelity Mutual fund range and responsible for their defined benefit pension business. In 2003 he joined Schroders Plc as a main board director and head of investment worldwide. In January 2006 he established Spencer House Capital Management with Lord Jacob Rothschild. In addition he has been a business angel investing in a wide range of private companies. He became a limited partner in CBE Capital Limited, a property development group.

### **John Le Poidevin, age 49**

John Le Poidevin is Guernsey resident and has over 25 years' business experience. Mr Le Poidevin is a graduate of Exeter University and Harvard Business School, a Fellow of the Institute of Chartered Accountants in England and Wales and a former partner of BDO LLP in London where, as Head of Consumer Markets, he developed an extensive breadth of experience and knowledge of listed businesses in the UK and overseas. He is an experienced non-executive who sits on several Plc boards and chairs a number of Audit Committees. He therefore brings a wealth of relevant experience in terms of corporate governance, audit, risk management and financial reporting. Mr Le Poidevin was appointed to the Board in June 2016.

### **Claire Whittet, age 64**

Claire Whittet is Guernsey resident and has 40 years' experience in the financial services industry. After obtaining a MA (Hons) in Geography from the University of Edinburgh, Mrs Whittet joined the Bank of Scotland for 19 years and undertook a wide variety of roles. She moved to Guernsey in 1996 and was Global Head of Private Client Credit for Bank of Bermuda before joining Rothschild & Co Bank International Limited in 2003, initially as Director of Lending and latterly as Managing Director and Co-Head until May 2016 when she became a non-executive Director. She is an ACIB member of the Chartered Institute of Bankers in Scotland, a Chartered Banker, a member of the Chartered Insurance Institute and holds an IoD Director's Diploma in Company Direction. She is a non-executive Director of a number of investment funds. Mrs Whittet was appointed to the Board in June 2014.

## DISCLOSURE OF DIRECTORSHIPS IN PUBLIC COMPANIES LISTED ON RECOGNISED STOCK EXCHANGES

The following summarises the Directors' directorships in other public companies:

	EXCHANGE
<b>COLIN MALTBY</b>	
BGI SICAV SA	London
Ocean Wilsons Holdings Limited	London and Bermuda
<b>BRONWYN CURTIS</b>	
JPMorgan Asia Growth and Income Plc	London
Pershing Square Holdings Limited	London and Euronext Amsterdam
Scottish American Investment Company Plc	London
<b>JOHN LE POIDEVIN</b>	
Episode Inc.	Euronext Dublin
International Public Partnerships Limited	London
<b>CLAIRE WHITTET</b>	
Eurocastle Investment Limited	Euronext Amsterdam
International Public Partnerships Limited	London
Riverstone Energy Limited	London
Third Point Offshore Investors Limited	London
TwentyFour Select Monthly Income Fund Limited	London

Richard Horlick does not hold any directorships in other public companies.

# STRATEGIC REPORT

For the year ended 31 December 2019

The Directors submit to the shareholders their Strategic Report of the Company for the year ended 31 December 2019.

The Strategic Report provides a review of the business for the financial year and describes how risks are managed. In addition, the report outlines key developments and financial performance of the Company during the financial year and the position at the end of the year, and discusses the main factors that could affect the future performance, and financial position of the Company.

## BUSINESS MODEL AND STRATEGY

### Investment Objective and Company Structure

The Company is organised as a feeder fund that invests solely in the ordinary US Dollar and Sterling denominated B shares issued by Brevan Howard Master Fund Limited (the "Master Fund") – a Cayman Islands open-ended investment company, which has as its investment objective, the generation of consistent long-term appreciation through active leveraged trading and investment on a global basis. Further details on the Investment Objective and Policy can be found in the Directors' Report on page 9.

### Sources of Cash and Liquidity Requirements

As the Master Fund is not expected to pay dividends, the Company expects that the primary source of its future liquidity will depend on borrowings in accordance with its leverage policies and the periodic redemption of shares from the Master Fund.

## BUSINESS ENVIRONMENT

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The Board is satisfied that by using the Company's risk matrix in establishing the Company's system of internal controls, while monitoring the Company's investment objective and policy, the Board has carried out a robust assessment of the principal risks and uncertainties facing the Company. The principal risks and uncertainties which have been identified and the steps which are taken by the Board to mitigate them are as follows:

- **Investment Risks:** The Company is exposed to the risk that its portfolio fails to perform in line with the Company's objectives if it is inappropriately invested or markets move adversely. The Board reviews reports from the Manager, which has total discretion over portfolio allocation, at each quarterly Board meeting, paying particular attention to this allocation and to the performance and volatility of underlying investments;
- **Operational Risks:** The Company is exposed to the risks arising from any failure of systems and controls in the operations of the Manager or the Administrator. The Board receives reports annually from the Manager and Administrator on their internal controls;

- **Accounting, Legal and Regulatory Risks:** The Company is exposed to risk if it fails to comply with the regulations of the UK Listing Authority or if it fails to maintain accurate accounting records. The Administrator provides the Board with regular reports on changes in regulations and accounting requirements;
- **Financial Risks:** The financial risks faced by the Company include market, credit and liquidity risk. These risks and the controls in place to mitigate them are reviewed at each quarterly Board meeting;
- **Brexit Risk:** Whilst noting that the Company is based in Guernsey and that it invests substantially all of its assets into a Caymanian master fund, the Company may nevertheless be exposed to risks arising from the UK's departure from the European Union. In conjunction with the Manager, the Board will monitor the potential impact on the Company and on the Company's performance. In the event of a "No Deal Brexit" at the end of the transition period on 31 December 2020, the Board will seek to ensure that all agreements remain compliant; and
- **Coronavirus Risk:** Despite the reported increased impact of coronavirus (COVID-19) on businesses, the Board believes that this is not a major business risk for the Company. The Company uses a number of service providers for its day to day operations. These providers have established and regularly tested Business Resiliency Policies in place, to cover various possible scenarios whereby staff cannot turn up for work at the designated office and conduct business as usual (such as work from home facilities and/or different regions covering work for other regions).

### Future Prospects

The Board's main focus is the achievement of long-term appreciation. The future of the Company is dependent upon the success on the investment strategy of the Master Fund. The investment outlook and future developments are discussed in both the Chairman's Statement and the Manager's Report on pages 1 to 3 and pages 20 to 23.

### Board Diversity

When appointing new directors and reviewing the board composition, the Board considers, amongst other factors, diversity, balance of skills, knowledge, gender and experience. The Board however does not consider it appropriate to establish targets or quotas in this regard. As at the date of this report, the Board comprised two female and three male non-executive directors.

### Environmental, Social and Governance Factors

The Company does not have employees, it does not own physical assets and its Board is formed exclusively of non-executive Directors. As such, the Company does not undertake activity which would directly affect the environment.



## BUSINESS ENVIRONMENT (CONTINUED)

### Environmental, Social and Governance Factors (continued)

On a regular basis, the Manager assesses the trading activity of the investment funds it manages, including the Master Fund, to ascertain whether environmental, social and governance ("ESG") factors are appropriate or applicable to such funds. Most ESG principles have been envisaged in the context of equity or corporate fixed income investment and therefore are not readily applicable to most types of instruments traded by the majority of funds managed by the Manager.

The Manager applies ESG Principles to its activity where appropriate, considering the structure of relevant Brevan Howard managed funds and the applicable trading universe. The Manager continues to monitor developments in this area and will seek to implement industry best practice where applicable.

## POSITION AND PERFORMANCE

### Packaged Retail and Insurance Based Investment Products ("PRIIPs")

The Company is subject to European Union Regulation (2017/653) ("the Regulation") which deems it to be a PRIIP. In accordance with the requirements of the Regulation, the Manager published the latest standardised three-page Key Information Document ("KID") on the Company on 4 June 2019. The KID is available on the Company's website <https://www.bhmacro.com/regulatory-disclosures> and will be updated at least every 12 months.

The Company is not responsible for the information contained in the KID. The process for calculating the risks, cost and potential returns are prescribed by regulation. The figures in the KID may not reflect the expected returns for the Company and anticipated returns cannot be guaranteed.

### Performance

#### Key Performance Indicators ("KPIs")

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. Below are the main KPIs which have been identified by the Board for determining the progress of the Company:

#### 1. Net Asset Value

The Company's net asset value has appreciated from £10.00 and US\$10.00 per share at launch to £26.06 and US\$26.99 at the year end. This increase in NAV is largely attributable to the long term growth strategy and returns. The Directors and Manager are confident that the current strategy will continue to return positive levels of growth in future.

#### 2. Share Prices, Discount/Premium

The Company has traded at an average premium of 1.15% and 0.44% to NAV for its USD and GBP shares respectively for the year ended 31 December 2019.

#### 3. Ongoing Charges

The Company's ongoing charges ratio has increased from 2.32% to 3.40% on the USD class and increased from 2.49% to 3.13% on the GBP class, primarily due to an increase in the performance fee.

The Company reports an aggregated view of the charges for both the US\$ and £ share classes. Further details are on page 12 in the Directors' Report.

### Return per Share

Total return per share is based on the net total gain on ordinary activities after tax of US\$5,791,771 for the US Dollar Class and £27,463,793 for the Sterling Class (2018: US\$8,353,157 and £37,510,794).

These calculations are based on the weighted average number of shares in issue for the year ended 31 December 2019. US Dollar shares: 2,539,270 and Sterling shares: 14,234,399 (2018: US Dollar shares: 2,725,296 and Sterling shares: 14,089,406).

		YEAR ENDED 31.12.19		YEAR ENDED 31.12.18	
	PER SHARE	'000	PER SHARE	'000	
Net total gain for US Dollar Shares	228.10c	5,792	306.50c	8,353	
Net total gain for Sterling Shares	192.94p	27,464	266.24p	37,511	

### Net Asset Value

The net asset value per US Dollar share, as at 31 December 2019 was US\$26.99 based on net assets of US\$65,906,917 divided by number of US\$ shares in issue of 2,442,057 (2018: US\$24.67).

The net asset value per Sterling share, as at 31 December 2019 was £26.06 based on net assets of £372,893,237, divided by number of Sterling shares in issue of 14,310,040 (2018: £24.13).

### Dividends

No dividends were paid in the year (2018: US\$Nil).

The investment objective of the Company is to seek to generate consistent long-term capital appreciation through an investment policy of investing all of its assets (net of funds required for its short-term working capital) in the Master Fund.

## STRATEGIC REPORT CONTINUED

### POSITION AND PERFORMANCE (CONTINUED)

#### Viability Statement

The Directors have assessed the viability of the Company over the period to 31 December 2022. The viability statement covers a period of three years, which the Directors consider sufficient given the inherent uncertainty of the investment world and the specific risks to which the Company is exposed.

The continuation of the Company in its present form is dependent on the Management Agreement remaining in place. The Management Agreement is currently terminable on three months' notice by either party. To ensure that the Company maintains a constructive and informed relationship with the Manager, the Directors meet regularly with the Manager to review the Master Fund's performance, and through the Management Engagement Committee, they review the Company's relationship with the Manager and the Manager's performance and effectiveness. The Directors currently know of no reason why either the Company or the Manager might serve notice of termination of the Management Agreement over the period of this viability statement.

The Company's assets exceed its liabilities by a considerable margin. Further, the majority of the Company's most significant expenses, being the fees owing to the Manager and to the Company's administrator, fluctuate by reference to the Company's investment performance and NAV. The Company is able to meet its expenses by redeeming shares in the Master Fund as necessary.

The Company's investment performance depends upon the performance of the Master Fund and the Manager as manager of the Master Fund. The Directors, in assessing the viability of the Company, pay particular attention to the risks facing the Master Fund. The Manager operates a risk management framework, which is intended to identify, measure, monitor, report and where appropriate, mitigate key risks identified by it or its affiliates in respect of the Master Fund.

Since 1 April 2019, in the event that there is downward pressure on the Company's share prices, the Company has been able to consider resuming active discount management actions, including share buybacks, so that as far as possible the share prices would more closely reflect the Company's underlying performance; such actions should help to mitigate the risk of class closure resolutions being triggered after that date. Refer to note 8 for details of the Company's discount management programme.

The Directors have carried out a robust assessment of the risks and, on the assumption that the risks are managed or mitigated in the ways noted above, the Directors have a reasonable

expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Although the Company is domiciled in Guernsey, the Board has considered the guidance set out in the AIC Code in relation to Section 172 of the Companies Act 2006 in the UK. Section 172 of the Companies Act requires that the Directors of the Company act in the way they consider, in good faith, is most likely to promote the success of the Company for the benefit of all stakeholders, including suppliers, customers and shareholders.

#### Key Service Providers

The Company does not have any employees and as such the Board delegates responsibility for its day to day operations to a number of key service providers. The activities of each service provider are closely monitored by the Board and they are required to report to the Board at set intervals.

In addition, a formal review of the performance of each service provider is carried out once a year by the Management Engagement Committee.

#### The Manager

The Manager is a leading and well established hedge fund manager. In exchange for its services a fee is payable as detailed in note 4 to the financial statements.

The Board considers that the interests of Shareholders, as a whole, are best served by the ongoing appointment of the Manager to achieve the Company's investment objective.

#### Administrator and Corporate Secretary

Northern Trust International Fund Administration Services (Guernsey) Limited is the Administrator and Corporate Secretary. Further details on fee structure are included in note 4 to the financial statements.

Signed on behalf of the Board by:

**Colin Maltby**  
Chairman

**John Le Poidevin**  
Director

24 March 2020

# DIRECTORS' REPORT

31 December 2019

The Directors submit their Report together with the BH Macro Limited (the "Company") Audited Statement of Assets and Liabilities, Audited Statement of Operations, Audited Statement of Changes in Net Assets, Audited Statement of Cash Flows and the related notes for the year ended 31 December 2019. The Directors' Report together with the Audited Financial Statements and their related notes (the "Financial Statements") give a true and fair view of the financial position of the Company. They have been prepared properly, in conformity with United States Generally Accepted Accounting Principles ("US GAAP") and are in agreement with the accounting records.

## THE COMPANY

BH Macro Limited is a limited liability closed-ended investment company which was incorporated in Guernsey on 17 January 2007 and then admitted to the Official List of the London Stock Exchange ("LSE") later that year.

Currently, ordinary shares are issued in US Dollars and Sterling.

## INVESTMENT OBJECTIVE AND POLICY

The Company is organised as a feeder fund that invests all of its assets (net of short-term working capital requirements) directly in Brevan Howard Master Fund Limited (the "Master Fund"), a hedge fund in the form of a Cayman Islands open-ended investment company, which has as its investment objective the generation of consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund is managed by Brevan Howard Capital Management LP, the Company's Manager.

The Master Fund has flexibility to invest in a wide range of instruments including, but not limited to, debt securities and obligations (which may be below investment grade), bank loans, listed and unlisted equities, other collective investment schemes, currencies, commodities, futures, options, warrants, swaps and other derivative instruments. The underlying philosophy is to construct strategies, often contingent in nature, with superior risk/return profiles, whose outcome will often be crystallised by an expected event occurring within a pre-determined period of time.

The Master Fund employs a combination of investment strategies that focus primarily on economic change and monetary policy and market inefficiencies.

The Company may employ leverage for the purposes of financing share purchases or buy backs, satisfying working capital requirements or financing further investment into the Master Fund, subject to an aggregate borrowing limit of 20% of the Company's NAV, calculated as at the time of borrowing.

Borrowing by the Company is in addition to leverage at the Master Fund level, which has no limit on its own leverage.

## RESULTS AND DIVIDENDS

The results for the year are set out in the Audited Statement of Operations on page 29. The Directors do not recommend the payment of a dividend.

## SHARE CAPITAL

The number of shares in issue at the period end is disclosed in note 5 of the Notes to the Audited Financial Statements.

## GOING CONCERN

The Directors, having considered the Principal Risks and Uncertainties to which the Company is exposed which are listed in the Strategic Report on page 6 and on the assumption that these are managed or mitigated as noted, are not aware of any material uncertainties which may cast significant doubt upon the Company's ability to continue as a going concern and, accordingly, consider that it is appropriate that the Company continues to adopt the going concern basis of accounting for these Audited Financial Statements.

## THE BOARD

The Board of Directors has overall responsibility for safeguarding the Company's assets, for the determination of the investment policy of the Company, for reviewing the performance of the service providers and for the Company's activities. The Directors, all of whom are non-executive, are listed on page 4.

The Articles provide that, unless otherwise determined by ordinary resolution, the number of Directors shall not be less than two. The Company's policy on Directors' Remuneration, together with details of the remuneration of each Director who served during the year, is detailed in the Directors' Remuneration Report on page 16.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Manager and the Administrator. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company are brought to the attention of the Directors. The Directors also have access to the Administrator and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

For each Director, the tables on the next page set out the number of Board and Audit Committee meetings they were entitled to attend during the year ended 31 December 2019 and the number of such meetings attended by each Director.

## DIRECTORS' REPORT CONTINUED

### THE BOARD (CONTINUED)

SCHEDULED BOARD MEETINGS	HELD	ATTENDED
Colin Maltby	4	4
Huw Evans	*2	2
Richard Horlick	*3	3
John Le Poidevin	4	4
Claire Whittet	4	4

AUDIT COMMITTEE MEETINGS	HELD	ATTENDED
John Le Poidevin	4	4
Richard Horlick	*3	2
Colin Maltby	*2	2
Claire Whittet	4	3

MANAGEMENT ENGAGEMENT COMMITTEE MEETINGS	HELD	ATTENDED
John Le Poidevin	1	1
Richard Horlick	1	1
Colin Maltby	1	1
Claire Whittet	1	1

\* Indicates the meetings held during their membership of the relevant Board or Committee during the year ended 31 December 2019.

In addition to these scheduled meetings, thirteen ad hoc committee meetings were held during the year ended 31 December 2019, which were attended by those Directors available at the time.

The Board has reviewed the composition, structure and diversity of the Board, succession planning, the independence of the Directors and whether each of the Directors has sufficient time available to discharge their duties effectively. The Board confirms that it believes that it has an appropriate mix of skills and backgrounds, that all of the Directors are considered to be independent in accordance with the provisions of the AIC Code and that all Directors have the time available to discharge their duties effectively.

On 5 December 2019, the board resolved to set a policy, limiting the tenure of the Chairman to nine years, which is consistent with the principles listed in the UK Corporate Governance Code.

Notwithstanding that some of the Directors sit on the boards of a number of other listed investment companies, the Board notes that each appointment is non-executive and that listed investment companies generally have a lower level of complexity

and time commitment than trading companies. Furthermore, the Board notes that attendance of all Board and Committee meetings during the period is high and that each Director has always shown the time commitment necessary to discharge fully and effectively their duties as a Director.

### DIRECTORS' INTERESTS

The Directors had the following interests in the Company, held either directly or beneficially:

	31.12.19	US DOLLAR SHARES 31.12.18
Colin Maltby	500	Nil
Huw Evans	N/A	Nil
Richard Horlick	Nil	N/A
John Le Poidevin	Nil	Nil
Claire Whittet	Nil	Nil

	31.12.19	STERLING SHARES 31.12.18
Colin Maltby	3,000	Nil
Huw Evans	N/A	5,270
Richard Horlick	Nil	N/A
John Le Poidevin	3,222	Nil
Claire Whittet	Nil	Nil

### DIRECTORS' INDEMNITY

Directors' and Officers' liability insurance cover is in place in respect of the Directors.

The Directors entered into indemnity agreements with the Company which provide for, subject to the provisions of the Companies (Guernsey) Law, 2008, an indemnity for Directors in respect of costs which they may incur relating to the defence of proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgement is given in their favour by the Court. The agreement does not provide for any indemnification for liability which attaches to the Directors in connection with any negligence, unfavourable judgements and breach of duty or trust in relation to the Company.

### CORPORATE GOVERNANCE

To comply with the UK Listing Regime, the Company must comply with the requirements of the UK Corporate Governance Code. The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission.

## CORPORATE GOVERNANCE (CONTINUED)

The Company is a member of the Association of Investment Companies (the "AIC") and by complying with the AIC Code is deemed to comply with both the UK Corporate Governance Code and the Guernsey Code of Corporate Governance.

The AIC updated its Code in February 2019 to reflect revised Principles and Provisions included in the UK Corporate Governance Code which was revised in 2018. These changes apply to financial years beginning on or after 1 January 2019.

To ensure ongoing compliance with the principles and the recommendations of the AIC Code, the Board receives and reviews a report from the Secretary, at each quarterly meeting, identifying whether the Company is in compliance and recommending any changes that are necessary.

The Company has complied with the requirements of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration;
- the need for an internal audit function; and
- whistle-blowing policy.

For the reasons explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company as it is an externally managed investment company with a Board formed exclusively of non-executive Directors. The Company has therefore not reported further in respect of these provisions. The Company does not have employees, hence no whistle-blowing policy is necessary. However, the Directors have satisfied themselves that the Company's service providers have appropriate whistle-blowing policies and procedures and seek regular confirmation from the service providers that nothing has arisen under those policies and procedures which should be brought to the attention of the Board.

The Company has adopted a policy that the composition of the Board of Directors is at all times such that (i) a majority of the Directors are independent of the Manager and any company in the same group as the Manager (the "Manager's Group"); (ii) the Chairman of the Board of Directors is free from any conflicts of

interest and is independent of the Manager's Group; and (iii) no more than one director, partner, employee or professional adviser to the Manager's Group may be a Director of the Company at any one time.

The Company has adopted a Code of Directors' dealings in securities.

The Company's risk exposure and the effectiveness of its risk management and internal control systems are reviewed by the Audit Committee and by the Board at their meetings. The Board believes that the Company has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed.

In view of its non-executive and independent nature, the Board considers that it is not necessary for there to be a Nomination Committee or a Remuneration Committee as anticipated by the AIC Code. The Board as a whole fulfils the functions of the Nomination and Remuneration Committees, although the Board has included a separate Remuneration Report on page 16 of these Audited Financial Statements. The Board has adopted a Nomination Policy covering procedures for nominations to the Board and to Board committees.

For new appointments to the Board, nominations are sought from the Directors and from other relevant parties and candidates are then interviewed by the Directors. The Board utilised the services of an independent, specialist company, Cornforth Consulting Ltd prior to appointing Richard Horlick and Bronwyn Curtis. The current Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. An induction programme is provided for newly-appointed Directors.

In line with the AIC Code, Section 21.3 of the Company's Articles requires all Directors to retire at each Annual General Meeting. At the Annual General Meeting of the Company on 20 June 2019, Shareholders re-elected all the Directors of the Company, with the exception of Huw Evans, who did not put himself forward for re-election.

The Board regularly reviews its composition and believes that the current appointments provide an appropriate range of skill, experience and diversity.

## DIRECTORS' REPORT CONTINUED

### CORPORATE GOVERNANCE (CONTINUED)

The Board, Audit Committee and Management Engagement Committee undertake an evaluation of their own performance and that of individual Directors on an annual basis. In order to review their effectiveness, the Board and its Committees carry out a process of formal self-appraisal. The Board and Committees consider how they function as a whole and also review the individual performance of their members. This process is conducted by the respective Chairman reviewing the Directors' performance, contribution and commitment to the Company.

Following the retirement of Huw Evans and the appointment of Colin Maltby as Chairman, Claire Whittet has replaced Colin Maltby as Senior Independent Director and will take the lead in evaluating the performance of the new Chairman.

The most recent external evaluation of the Board's performance was completed in February 2018 and is scheduled to take place every three years. The evaluation confirmed that the Board works in a collegiate, harmonious and effective manner and made a number of recommendations for the medium term structure of the Board which have been adopted.

The Board needs to ensure that the Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy. In seeking to achieve this, the Directors have set out the Company's investment objective and policy and have explained how the Board and its delegated Committees operate and how the Directors review the risk environment within which the Company operates and set appropriate risk controls. Furthermore, throughout the Annual Report, the Board has sought to provide further information to enable Shareholders to better understand the Company's business and financial performance.

### POLICY TO COMBAT FRAUD, BRIBERY AND CORRUPTION

The Board has adopted a formal policy to combat fraud, bribery and corruption. The policy applies to the Company and to each of its Directors. Further, the policy is shared with each of the Company's service providers.

In respect of the UK Criminal Finances Act 2017 which introduced a new Corporate Criminal Offence of 'failing to take reasonable steps to prevent the facilitation of tax evasion', the Board confirms that it is committed to preventing the facilitation of tax evasion and takes all reasonable steps to do so.

### ONGOING CHARGES

Ongoing charges for the years ended 31 December 2019 and 31 December 2018 have been prepared in accordance with the AIC's recommended methodology.

The following table presents the Ongoing Charges for each share class:

#### 31.12.19

	US DOLLAR SHARES	STERLING SHARES
Company – Ongoing Charges	0.61%	0.59%
Master Fund – Ongoing Charges	0.61%	0.65%
Performance fees	2.18%	1.89%
Ongoing Charges plus performance fees	3.40%	3.13%

#### 31.12.18

	US DOLLAR SHARES	STERLING SHARES
Company – Ongoing Charges	0.62%	0.64%
Master Fund – Ongoing Charges	0.64%	0.64%
Performance fees	1.06%	1.21%
Ongoing Charges plus performance fees	2.32%	2.49%

The Master Fund's Ongoing Charges represent the portion of the Master Fund's operating expenses which have been allocated to the Company. The Company invests substantially all of its investable assets in ordinary US Dollar and Sterling denominated Class B shares issued by the Master Fund. These shares are not subject to management fees and performance fees within the Master Fund. The Master Fund's operating expenses include an operational services fee payable to the Manager of 1/12 of 0.5% per month of the NAV.

### PERFORMANCE GRAPHS

The graphs shown on page 3 detail the performance of the Company's NAV and share prices over the year.

### AUDIT COMMITTEE

The Company's Audit Committee conducts formal meetings at least three times a year for the purpose, amongst others, of considering the appointment, independence, effectiveness of the audit and remuneration of the auditors and to review and recommend the annual statutory accounts and interim report to the Board of Directors. It is chaired by John Le Poidevin and comprises Richard Horlick, who was appointed on 1 May 2019, Bronwyn Curtis, who was appointed on 1 January 2020 and Claire Whittet. Colin Maltby was a member of the Audit Committee until 20 June 2019. The Terms of Reference of the Audit Committee are available from the Administrator.



## MANAGEMENT ENGAGEMENT COMMITTEE

The Board has established a Management Engagement Committee with formal duties and responsibilities. The Management Engagement Committee meets formally at least once a year, is chaired by Claire Whittet and comprises all members of the Board.

The function of the Management Engagement Committee is to ensure that the Company's Management Agreement is competitive and reasonable for the Shareholders, along with the Company's agreements with all other third party service providers (other than the Independent Auditors). The Terms of Reference of the Management Engagement Committee are available from the Administrator.

The details of the Manager's fees and notice period are set out in note 4 to the Audited Financial Statements.

The Board continuously monitors the performance of the Manager and a review of the Manager is conducted by the Management Engagement Committee annually.

The Manager has wide experience in managing and administering investment companies and has access to extensive investment management resources.

At its meeting on 5 September 2019, the Management Engagement Committee concluded that the continued appointment of the Manager, Administrator, UK and Guernsey Legal Advisers, Registrar and Corporate Broker on the terms agreed was in the interests of the Company's Shareholders as a whole. At the date of this report, the Board continues to be of the same opinion.

## INTERNAL CONTROLS

Responsibility for the establishment and maintenance of an appropriate system of internal control rests with the Board and to achieve this, a process has been established which seeks to:

- Review the risks faced by the Company and the controls in place to address those risks;
- Identify and report changes in the risk environment;
- Identify and report changes in the operational controls;
- Identify and report on the effectiveness of controls and errors arising; and
- Ensure no override of controls by its service providers, the Manager and Administrator.

A report is tabled and discussed at each Audit Committee meeting, and reviewed once a year by the Board, setting out the Company's risk exposure and the effectiveness of its risk management and internal control systems. The Board believes that the Company has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed.

In order to recognise any new risks that could impact the Company and ensure that appropriate controls are in place to manage those risks, the Audit Committee undertakes a regular review of the Company's Risk Matrix. This review took place on three occasions during the year.

The Board has delegated the management of the Company, the administration, corporate secretarial and registrar functions including the independent calculation of the Company's NAV and the production of the Annual Report and Financial Statements, which are independently audited. Whilst the Board delegates these functions, it remains responsible for the functions it delegates and for the systems of internal control. Formal contractual agreements have been put in place between the Company and the providers of these services. On an ongoing basis, Board reports are provided at each quarterly Board meeting from the Manager, Administrator and Company Secretary and Registrar. A representative from the Manager is asked to attend these meetings.

In common with most investment companies, the Company does not have an internal audit function. All of the Company's management functions are delegated to the Manager, Administrator and Company Secretary and Registrar which have their own internal audit and risk assessment functions.

Further reports are received from the Administrator in respect of compliance, London Stock Exchange continuing obligations and other matters. The reports were reviewed by the Board. No material adverse findings were identified in these reports.

## INTERNATIONAL TAX REPORTING

For purposes of the US Foreign Account Tax Compliance Act, the Company registered with the US Internal Revenue Services ("IRS") as a Guernsey reporting Foreign Financial Institution ("FFI"), received a Global Intermediary Identification Number (5QHZVI.99999.SL.831), and can be found on the IRS FFI list.

The Common Reporting Standard ("CRS") is a global standard for the automatic exchange of financial account information developed by the Organisation for Economic Co-operation and Development ("OECD"), which was adopted by Guernsey and came into effect on 1 January 2016. The CRS replaced the intergovernmental agreement between the UK and Guernsey to improve international tax compliance that had previously applied

## DIRECTORS' REPORT CONTINUED

### INTERNATIONAL TAX REPORTING (CONTINUED)

in respect of 2014 and 2015. The Company made its latest report for CRS to the Director of Income Tax on 28 June 2019.

### RELATIONS WITH SHAREHOLDERS

The Board welcomes Shareholders' views and places great importance on communication with the Company's Shareholders. The Board receives regular reports on the views of Shareholders and the Chairman and other Directors are available to meet Shareholders, with a number of such meetings taking place during the year. The Annual General Meeting of the Company provides a forum for Shareholders to meet and discuss issues with the Directors of the Company. The Company provides weekly unaudited estimates of NAV, month end unaudited estimates and unaudited final NAVs. The Company also provides a monthly newsletter. These are published via RNS and are also available on the Company's website. Risk reports of the Master Fund are also available on the Company's website.

The Manager maintains regular dialogue with institutional Shareholders, the feedback from which is reported to the Board. Shareholders who wish to communicate with the Board should contact the Administrator in the first instance.

Having reviewed the Financial Conduct Authority's restrictions on the retail distribution of non-mainstream pooled investments, the Company, after taking legal advice, announced on 15 January 2014 that it is outside the scope of those restrictions, so that its shares can continue to be recommended by UK authorised persons to ordinary retail investors.

Following the publication of the updated AIC Code in February 2019, when 20 per-cent or more of Shareholder votes have been cast against a board recommendation for a resolution, the Company should explain, when announcing voting results, what actions it intend to take to consult Shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting. The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed. During the year, no resolution recommended by the Board received more than 20% of votes against it.

### SIGNIFICANT SHAREHOLDERS

As at 31 December 2019, the following Shareholders had significant shareholdings in the Company:

	TOTAL SHARES HELD	% HOLDING IN CLASS
<b>SIGNIFICANT SHAREHOLDERS US DOLLAR SHARES</b>		
Vidacos Nominees Limited	871,736	35.70%
Hero Nominees Limited	456,287	18.68%
The Bank of New York (Nominees) Limited	234,430	9.60%
Luna Nominees Limited	143,960	5.90%
Pershing Nominees Limited	111,837	4.58%
Euroclear Nominees Limited	75,610	3.10%
<b>SIGNIFICANT SHAREHOLDERS STERLING SHARES</b>		
Ferlim Nominees Limited	2,841,378	19.86%
Rathbone Nominees Limited	1,351,150	9.44%
HSBC Global Custody Nominee (UK) Limited	1,191,229	8.32%
Pershing Nominees Limited	969,707	6.78%
Smith & Williamson Nominees Limited	692,900	4.84%
Harewood Nominees Limited	600,559	4.20%
Securities Services Nominees Limited	577,524	4.04%
Nortrust Nominees Limited	548,518	3.83%
Roy Nominees Limited	543,040	3.79%
Lion Nominees Limited	528,216	3.69%
The Bank of New York (Nominees) Limited	454,924	3.18%

Signed on behalf of the Board by:

**Colin Maltby**  
Chairman

**John Le Poidevin**  
Director

24 March 2020



## STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and Audited Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they elected to prepare the financial statements in accordance with accounting principles generally accepted in the United States of America and applicable law.

Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless liquidation is imminent.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL FINANCIAL REPORT

We confirm that to the best of our knowledge:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's Independent Auditor is unaware, and each has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant information and to establish that the Company's Independent Auditor is aware of that information;
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Chairman's Statement, Strategic Report, Directors' Report and Manager's Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

We consider the Annual Report and Audited Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Signed on behalf of the Board by:

**Colin Maltby**  
Chairman

**John Le Poidevin**  
Director

24 March 2020

# DIRECTORS' REMUNERATION REPORT

31 December 2019

## INTRODUCTION

An ordinary resolution for the approval of the Directors' Remuneration Report will be put to the Shareholders at the Annual General Meeting to be held in June 2020.

## REMUNERATION POLICY

All Directors are non-executive and a Remuneration Committee has not been established. The Board as a whole considers matters relating to the Directors' remuneration. No advice or services were provided by any external person in respect of its consideration of the Directors' remuneration.

The Company's policy is that the fees payable to the Directors should reflect the time spent by the Directors on the Company's affairs and the responsibilities borne by the Directors and be sufficient to attract, retain and motivate Directors of a quality required to run the Company successfully. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities, as are the Chairs of the Audit Committee, the Management Engagement Committee and the Senior Independent Director. The policy is to review fee rates periodically, although such a review will not necessarily result in any changes to the rates, and account is taken of fees paid to Directors of comparable companies.

There are no long term incentive schemes provided by the Company and no performance fees are paid to Directors.

No Director has a service contract with the Company but each of the Directors is appointed by a letter of appointment which sets out the main terms of their appointment. The Directors were appointed to the Board for an initial term of three years and Section 21.3 of the Company's Articles requires, as does the AIC Code, that all of the Directors retire at each Annual General Meeting. At the Annual General Meeting of the Company on 20 June 2019, Shareholders re-elected all the Directors, with the exception of Huw Evans, who did not put himself forward for re-election. Director appointments can also be terminated in accordance with the Articles. Should Shareholders vote against a Director standing for re-election, the Director affected will not be entitled to any compensation. There are no set notice periods and a Director may resign by notice in writing to the Board at any time.

Directors are remunerated in the form of fees, payable quarterly in arrears, to the Director personally.

No other remuneration or compensation was paid or payable by the Company during the year to any of the Directors apart from the reimbursement of allowable expenses.

## DIRECTORS' FEES

The Company's Articles limit the fees payable to Directors in aggregate to £400,000 per annum. Until 19 June 2019, the

annual fees were £65,000 for Huw Evans, the Chairman, £47,500 for John Le Poidevin, the Chair of the Audit Committee, £45,000 for Claire Whittet, the Chair of the Management Engagement Committee, £45,000 for Colin Maltby as Senior Independent Director and £40,000 for all other Directors.

Between 20 June 2019 and 30 September 2019, annual fee levels remained the same as above, except for Colin Maltby, who was paid at the rate of £65,000 per annum after succeeding Huw Evans as Chairman and £47,500 per annum for Claire Whittet, who was appointed Senior Independent Director.

On 5 September 2019, the Board agreed to changes to the annual Director's fees, effective from 1 October 2019 onward. They were changed to £70,000 for Colin Maltby, the Chairman, £55,000 for John Le Poidevin, the Chair of the Audit Committee, £50,000 for Claire Whittet, as Chair of the Management Engagement Committee and the Senior Independent Director and £45,000 for all other Directors.

The fees payable by the Company in respect of each of the Directors who served during the year ended 31 December 2019 and the year ended 31 December 2018, were as follows:

	YEAR ENDED 31.12.19 £	YEAR ENDED 31.12.18 £
Colin Maltby	56,854	45,000
Huw Evans*	*30,714	65,000
Richard Horlick***	**27,953	N/A
John Le Poidevin	49,375	47,500
Claire Whittet	46,950	45,000
<b>TOTAL</b>	<b>211,846</b>	<b>202,500</b>

\* Huw Evans served as Chairman at a fee of £65,000 pa until his retirement from the Board on 20 June 2019.

\*\* Richard Horlick was appointed on 1 May 2019 at a fee of £40,000 pa until 30 September 2019 and £45,000 from 1 October 2019.

Signed on behalf of the Board by:

**Colin Maltby**  
Chairman

**John Le Poidevin**  
Director

24 March 2020

# REPORT OF THE AUDIT COMMITTEE

31 December 2019

On the following pages, we present the Audit Committee's (the "Committee") Report for 2019, setting out the Committee's structure and composition, principal duties and key activities during the year. As in previous years, the Committee has reviewed the Company's financial reporting, the independence and effectiveness of the Independent Auditor and the internal control and risk management systems of the service providers.

## STRUCTURE AND COMPOSITION

The Committee is chaired by John Le Poidevin and its other members are Claire Whittet, Richard Horlick and Bronwyn Curtis.

Appointment to the Committee is for a period up to three years which may be extended for two further three year periods provided that the majority of the Committee remains independent of the Manager. John Le Poidevin and Claire Whittet are currently serving their second terms and Richard Horlick and Bronwyn Curtis are each serving their first term.

The Committee conducts formal meetings at least three times a year. The table in the Directors' Report, on page 10, sets out the number of Committee meetings held during the year ended 31 December 2019 and the number of such meetings attended by each committee member. The Independent Auditor is invited to attend those meetings at which the annual and interim reports are considered. The Independent Auditor and the Committee will meet together without representatives of either the Administrator or Manager being present if the Committee considers this to be necessary.

## PRINCIPAL DUTIES

The role of the Committee includes:

- monitoring the integrity of the published Financial Statements of the Company;
- reviewing and reporting to the Board on the significant issues and judgements made in the preparation of the Company's published Financial Statements, (having regard to matters communicated by the Independent Auditor), significant financial returns to regulators and other financial information;
- monitoring and reviewing the quality and effectiveness of the Independent Auditor and their independence;
- considering and making recommendations to the Board on the appointment, reappointment, replacement and remuneration to the Company's Independent Auditor; and
- monitoring and reviewing the internal control and risk management systems of the service providers.

The complete details of the Committee's formal duties and responsibilities are set out in the Committee's Terms of Reference, which can be obtained from the Company's Administrator.

The independence and objectivity of the Independent Auditor is reviewed by the Committee, which also reviews the terms under which the Independent Auditor is appointed to perform non-audit services, which includes consideration of the 2016 Financial Reporting Council Ethical Standard. The Committee has also established policies and procedures for the engagement of the auditor to provide audit, assurance and other services. The services which the Independent Auditor may not provide are any which:

- places them in a position to audit their own work;
- creates a mutuality of interest;
- results in the Independent Auditor functioning as a manager or employee of the Company; or
- puts the Independent Auditor in the role of advocate of the Company.

## INDEPENDENT AUDITOR

The audit and any non-audit fees proposed by the Independent Auditor each year are reviewed by the Committee taking into account the Company's structure, operations and other requirements during the year and the Committee makes recommendations to the Board.

KPMG Channel Islands Limited ("KPMG CI") has been the Company's Independent Auditor from the date of the initial listing on the London Stock Exchange. The external audit was most recently tendered for the year ended 31 December 2016, where KPMG CI was re-appointed as auditor following the completion of the tender process.

## KEY ACTIVITIES IN 2019

The following sections discuss the assessment made by the Committee during the year:

## REPORT OF THE AUDIT COMMITTEE CONTINUED

### KEY ACTIVITIES IN 2019 (CONTINUED)

#### Significant Financial Statement Issues

The Committee's review of the interim and annual Financial Statements focused on the following area:

The Company's investment in the Master Fund had a fair value of US\$558.6 million as at 31 December 2019 and represents substantially all the net assets of the Company. The valuation of the investment is determined in accordance with the Accounting Policies set out in note 3 to the Audited Financial Statements. The Financial Statements of the Master Fund for the year ended 31 December 2019 were audited by KPMG Cayman who issued an unqualified audit opinion dated 18 March 2020. The Audit Committee has reviewed the Financial Statements of the Master Fund and the Accounting Policies and determined the fair value of the investment as at 31 December 2019 is reasonable.

This matter was discussed during the planning and final stage of the audit and there was no significant divergence of views between the Committee and the Independent Auditor.

The Committee has carried out a robust assessment of the risks to the Company in the context of making the viability statement in these Financial Statements. Furthermore, the Committee has concluded it appropriate to continue to prepare the Financial Statements on the going concern basis of accounting.

#### Effectiveness of the Audit

The Committee held formal meetings with KPMG CI during the course of the year: 1) before the start of the audit to discuss formal planning, to discuss any potential issues and to agree the scope that would be covered; and 2) after the audit work was concluded to discuss the significant issues including those stated above.

The Committee considered the effectiveness and independence of KPMG CI by using a number of measures, including but not limited to:

- Reviewing the audit plan presented to them before the start of the audit;
- Reviewing and challenging the audit findings report including variations from the original plan;
- Reviewing any changes in audit personnel; and
- Requesting feedback from both the Manager and the Administrator.

Further to the above, during the year, the Committee performed a specific evaluation of the performance of the Independent Auditor. This was supported by the results of questionnaires completed by the Committee covering areas such as the quality of the audit team, business understanding, audit approach and management. This questionnaire was part of the process by which the Committee assessed the effectiveness of the audit. There were no significant adverse findings from the 2019 evaluation.

#### Audit Fees and Safeguards on Non-Audit Services

The table below summarises the remuneration paid by the Company to KPMG CI for audit and non-audit services during the years ended 31 December 2019 and 31 December 2018.

	YEAR ENDED 31.12.19 £	YEAR ENDED 31.12.18 £
Annual audit	31,000	30,000
Interim review	15,350	15,000

The Audit Committee has examined the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the Independent Auditor, with particular regard to non-audit fees, and considers KPMG CI, as Independent Auditor, to be independent of the Company. Further, the Committee has obtained KPMG CI's confirmation that the services provided by other KPMG member firms to the wider Brevan Howard organisation do not prejudice its independence.

#### Internal Control

The Audit Committee has also reviewed the need for an internal audit function. The Committee has concluded that the systems and procedures employed by the Manager and the Administrator, including their own internal audit functions, currently provide sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Committee examined externally prepared assessments of the control environment in place at the Manager and the Administrator, with the Manager providing an International Standard on Assurance Engagements ("ISAE 3402") report and the Administrator providing a Service Organisation Control ("SOC1") report. No significant findings have been noted during the year.

## KEY ACTIVITIES IN 2019 (CONTINUED)

### Conclusion and Recommendation

After reviewing various reports such as the operational and risk management framework and performance reports from the Manager and Administrator, consulting where necessary with KPMG CI, and assessing the significant Financial Statement issues noted in the Report of the Audit Committee, the Committee is satisfied that the Financial Statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures). The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised and challenged and are sufficiently robust. At the request of the Board, the Audit Committee considered and was satisfied that the 2019 Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the necessary information for Shareholders to assess the Company's performance, business model and strategy.

The Independent Auditor reported to the Committee that no unadjusted material misstatements were found in the course of its work. Furthermore, both the Manager and the Administrator confirmed to the Committee that they were not aware of any unadjusted material misstatements including matters relating to the presentation of the Financial Statements. The Committee confirms that it is satisfied that the Independent Auditor has fulfilled its responsibilities with diligence and professional scepticism.

Consequent to the review process on the effectiveness of the independent audit and the review of audit and non-audit services, the Committee has recommended that KPMG CI be reappointed for the coming financial year.

For any questions on the activities of the Committee not addressed in the foregoing, a member of the Audit Committee remains available to attend each Annual General Meeting to respond to such questions.

**John Le Poidevin**

Audit Committee Chairman

24 March 2020

## MANAGER'S REPORT

Brevan Howard Capital Management LP ("BHCM" or the "Manager") is the Manager of BH Macro Limited ("BHM" or the "Company") and of Brevan Howard Master Fund Limited (the "Master Fund"). The Company invests all of its assets (net of short-term working capital) in the ordinary shares of the Master Fund.

### PERFORMANCE REVIEW

The NAV per share of the USD shares of the Company appreciated by 9.38% in 2019, while the NAV per share of the GBP shares appreciated by 7.98%.

The month-by-month NAV performance of each currency class of the Company since it commenced operations in 2007 is set out below.

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	1.32	0.38	0.47	14.16
2019	0.67	(0.70)	2.45	(0.49)	3.55	3.97	(0.66)	1.12	(1.89)	0.65	(1.17)	1.68	9.38

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	6.85	(2.61)	(2.33)	0.95	2.91	1.33	1.21	(2.99)	2.84	4.23	(0.67)	23.25
2009	5.19	2.86	1.18	0.05	3.03	(0.90)	1.36	0.66	1.55	1.02	0.40	0.40	18.00
2010	(0.23)	(1.54)	0.06	1.45	0.36	1.39	(1.96)	1.23	1.42	(0.35)	(0.30)	(0.45)	1.03
2011	0.66	0.52	0.78	0.51	0.59	(0.56)	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	1.17	0.26	0.31	12.43
2019	0.52	(0.88)	2.43	(0.60)	3.53	3.82	(0.78)	1.00	(1.94)	0.47	(1.22)	1.52	7.98

Source: Master Fund NAV data is provided by the administrator of the Master Fund, International Fund Services (Ireland) Limited ("IFS"). The Company's NAV and NAV per Share data is provided by the Company's administrator, Northern Trust International Fund Administration Services (Guernsey) Limited. Company NAV per Share % Monthly Change is calculated by the Manager. Company NAV data is unaudited and net of all investment management and all other fees and expenses payable by the Company. In addition, the Master Fund is subject to an operational services fee.

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

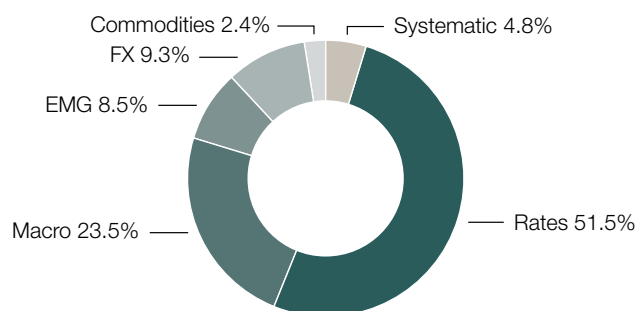
No management fee or operational services fee is charged in respect of performance related growth of NAV for each class of share in excess of its level on 1 April 2017 as if the tender offer commenced by the Company on 27 January 2017 had completed on 1 April 2017.

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

Data as at 31 December 2019.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS

**Strategy Group Exposure (% of capital allocation\*)**



Source: Brevan Howard Capital Management LP, as at 31 December 2019.

\* Capital allocations are subject to change.

The above strategies are categorised as follows:

**"Systematic"**: rules-based futures trading

**"Rates"**: developed interest rates markets

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

**"EMG"**: global emerging markets

**"FX"**: global FX forwards and options

**"Commodities"**: liquid commodity futures and options



## MANAGER'S REPORT CONTINUED

### PERFORMANCE REVIEW (CONTINUED)

Quarterly and annual contribution (%) to the performance of the Company's USD Shares (net of fees and expenses) by asset class\*

	RATES	FX	COMMODITY	CREDIT	EQUITY	DISCOUNT MANAGEMENT	TOTAL
Q1 2019	3.16	(0.68)	0.05	(0.03)	(0.09)	0.00	2.41
Q2 2019	9.14	(1.79)	0.25	(0.04)	(0.29)	0.00	7.14
Q3 2019	(1.61)	0.35	0.23	(0.10)	(0.30)	0.00	(1.45)
Q4 2019	0.53	0.74	(0.40)	0.15	0.15	0.00	1.15
2019	11.35	(1.39)	0.12	(0.02)	(0.53)	0.00	9.38

\*Data as at 31 December 2019

Please note that quarterly and annual returns shown in this table are compounded.

Quarterly and annual figures are calculated by BHCM as at 31 December 2019, based on performance data for each period provided by the Company's administrator, Northern Trust. Figures rounded to two decimal places.

Quarterly and annual returns shown in this table are compounded and the calculation methodology is in line with that published in the monthly shareholder reports which are available on the Company's website.

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

"Discount Management": buyback activity for discount management purposes

### PERFORMANCE AND ECONOMIC OUTLOOK COMMENTARY

The Master Fund generated positive returns throughout the year, driven in particular by interest rate trading in the US, Europe and emerging markets. At the beginning of 2019, the Master Fund was positioned in anticipation of monetary policy easing by the Federal Reserve, the ECB and the Bank of England. These views were expressed through a combination of directional, yield curve and volatility positions. In the event, global growth slowed as the year unfolded, led by notable weakness in the manufacturing sector, and punctuated by an intensification in trade tensions between the US and China. As markets started to anticipate the potential for rate cuts and, in the case of Europe, further quantitative easing, these positions profited, in particular during the second quarter of the year. Markets became more choppy after the summer. Investors were caught off guard by President Trump's demand that US companies move out of China, the designation of China as a currency manipulator, and the announcement of new tariffs covering all of US trade with China. The consequences of this escalation were immediately felt in markets and were reflected in a further deterioration in business sentiment. Fears of an uncontrolled trade war and cliff-edge Brexit increased the odds of global recession. However, risk assets recovered on plans for a phase one trade deal between the US and China, the prospects for a resolution to Brexit following the UK election, and hopes that fiscal and monetary policy easing would buoy growth. Growth in China and Europe stabilised and fears of recession in the US waned. In this environment, some of the gains from US interest rate positioning were



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## PERFORMANCE AND ECONOMIC OUTLOOK COMMENTARY (CONTINUED)

given back in the third quarter and position taking became more tactical into the end of the year. In a number of emerging markets, political and social unrest weighed heavily on economic activity, enabling the Master Fund to profit in every quarter from a wide range of idiosyncratic interest rate trading strategies.

Going into 2020, global growth remained soft, inflation was low, and geopolitics remained volatile. The outbreak and rapid spread of coronavirus (COVID-19) has severely impacted global commercial activities. There have been sharp falls in risk assets and commodity prices, with policymakers taking substantial steps to respond. The evolving situation presents a number of challenges to global economic activity in 2020.

Brevan Howard wishes to thank shareholders once again for their continued support.

Brevan Howard Capital Management LP,  
acting by its sole general partner,  
Brevan Howard Capital Management Limited.

24 March 2020



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BH MACRO LIMITED

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## OUR OPINION IS UNMODIFIED

We have audited the financial statements of BH Macro Limited (the "Company"), which comprise the Audited Statement of Assets and Liabilities as at 31 December 2019, the Audited Statements of Operations, Changes in Net Assets and Cash Flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2019, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in conformity with U.S. generally accepted accounting principles; and
- comply with the Companies (Guernsey) Law, 2008.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards, as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## KEY AUDIT MATTERS: OUR ASSESSMENT OF THE RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2018):



	THE RISK	OUR RESPONSE
<p><i>Valuation of Investment in Brevan Howard Master Fund Limited (the "Master Fund")</i></p> <p>\$558,606,000;</p> <p>(2018: \$500,567,000);</p> <p>Refer to page 18 of the Audit Committee Report and note 3 accounting policy</p>	<p><b>BASIS:</b></p> <p>The Company, which is a multi-class feeder fund, had invested 99.79% (2018: 100.05%) of its net assets at 31 December 2019 into the ordinary US Dollar and Sterling denominated Class B Shares issued by the Master Fund, which is an open ended investment company</p> <p>The Company's investment holdings in the Master Fund are valued using the respective net asset value per share class as provided by the Master Fund's administrator</p> <p><b>RISK:</b></p> <p>The valuation of the Company's Investment in the Master Fund, given that it represents the majority of the net assets of the Company, is a significant area of our audit</p>	<p><i>Our audit procedures included, but were not limited to:</i></p> <ul style="list-style-type: none"> <li>• Obtained an independent confirmation from the administrator of the Master Fund of the net asset value per share for both the US Dollar and Sterling Class B shares and reconciled these to the net asset values used in the valuation of the Investment in the Master Fund</li> <li>• Reviewed the audit work performed by the auditor of the Master Fund to gain insight over the work performed on the significant elements of the Master Fund's net asset value; and held discussions on key audit findings with the auditor of the Master Fund</li> <li>• Examined the Master Fund's coterminous audited financial statements to corroborate the net asset value per share of both the US Dollar and Sterling Class B shares</li> </ul> <p>We also considered the Company's investment valuation policies as disclosed in note 3 to the financial statements for conformity with U.S. generally accepted accounting principles</p>

## OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the financial statements as a whole was set at \$8,182,000, determined with reference to a benchmark of Net Assets of \$559,765,000, of which it represents approximately 1.5%.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$409,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

## WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in note 3 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis

for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in this respect.

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BH MACRO LIMITED CONTINUED

## DISCLOSURES OF PRINCIPAL RISKS AND LONGER TERM VIABILITY

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement (page 8) that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed or mitigated;
- the Directors' explanation in the Viability Statement (page 8) as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## CORPORATE GOVERNANCE DISCLOSURES

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

## WE HAVE NOTHING TO REPORT ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

## RESPECTIVE RESPONSIBILITIES

### *Directors' responsibilities*

As explained more fully in their statement set out on page 15, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless liquidation is imminent.

### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).



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**THE PURPOSE OF THIS REPORT AND RESTRICTIONS  
ON ITS USE BY PERSONS OTHER THAN THE  
COMPANY'S MEMBERS AS A BODY**

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Barry Ryan

for and on behalf of KPMG CHANNEL ISLANDS LIMITED

Chartered Accountants and Recognised Auditors

Guernsey

24 March 2020

# AUDITED STATEMENT OF ASSETS AND LIABILITIES

As at 31 December 2019

	31.12.19 US\$'000	31.12.18 US\$'000
<b>ASSETS</b>		
Investment in the Master Fund	558,606	500,567
Master Fund redemption proceeds receivable	11,433	–
Prepaid expenses	46	64
Cash and bank balances denominated in US Dollars	172	750
Cash and bank balances denominated in Sterling	522	4,926
<b>TOTAL ASSETS</b>	<b>570,779</b>	<b>506,307</b>
<b>LIABILITIES</b>		
Performance fees payable (note 4)	10,505	5,684
Management fees payable (note 4)	394	203
Accrued expenses and other liabilities	91	93
Administration fees payable (note 4)	24	24
<b>TOTAL LIABILITIES</b>	<b>11,014</b>	<b>6,004</b>
<b>NET ASSETS</b>	<b>559,765</b>	<b>500,303</b>
<b>NUMBER OF SHARES IN ISSUE (NOTE 5)</b>		
US Dollar shares	2,442,057	2,664,541
Sterling shares	14,310,040	14,136,242
<b>NET ASSET VALUE PER SHARE (NOTES 7 AND 9)</b>		
US Dollar shares	US\$26.99	US\$24.67
Sterling shares	£26.06	£24.13

See accompanying Notes to the Audited Financial Statements.

Signed on behalf of the Board by:

Colin Maltby  
Chairman

John Le Poidevin  
Director

24 March 2020

# AUDITED STATEMENT OF OPERATIONS

For the year ended 31 December 2019

	01.01.19 31.12.19 US\$'000	01.01.18 31.12.18 US\$'000
<b>NET INVESTMENT LOSS ALLOCATED FROM THE MASTER FUND</b>		
Interest income	22,303	7,298
Dividend and other income (net of withholding tax: 31 December 2019: US\$34,677; 31 December 2018: US\$25,955)	88	1,621
Expenses	(27,628)	(13,809)
<b>NET INVESTMENT LOSS ALLOCATED FROM THE MASTER FUND</b>	<b>(5,237)</b>	<b>(4,890)</b>
<b>COMPANY INCOME</b>		
Fixed deposit income	1	–
Foreign exchange gains (note 3)	18,544	–
<b>TOTAL COMPANY INCOME</b>	<b>18,545</b>	<b>–</b>
<b>COMPANY EXPENSES</b>		
Performance fees (note 4)	10,196	5,904
Management fees (note 4)	2,281	2,355
Other expenses	469	476
Directors' fees	271	269
Administration fees (note 4)	94	94
Foreign exchange losses (note 3)	–	23,246
<b>TOTAL COMPANY EXPENSES</b>	<b>13,311</b>	<b>32,344</b>
<b>NET INVESTMENT LOSS</b>	<b>(3)</b>	<b>(37,234)</b>
<b>NET REALISED AND UNREALISED GAIN ON INVESTMENTS ALLOCATED FROM THE MASTER FUND</b>		
Net realised gain on investments	8,371	72,315
Net unrealised gain/(loss) on investments	51,094	(96)
<b>NET REALISED AND UNREALISED GAIN ON INVESTMENTS ALLOCATED FROM THE MASTER FUND</b>	<b>59,465</b>	<b>72,219</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>59,462</b>	<b>34,985</b>

See accompanying Notes to the Audited Financial Statements.

## AUDITED STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2019

	01.01.19 31.12.19 US\$'000	01.01.18 31.12.18 US\$'000
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>		
Net investment loss	(3)	(37,234)
Net realised gain on investments allocated from the Master Fund	8,371	72,315
Net unrealised gain/(loss) on investments allocated from the Master Fund	51,094	(96)
	<b>59,462</b>	<b>34,985</b>
<b>NET INCREASE IN NET ASSETS</b>	<b>59,462</b>	<b>34,985</b>
<b>NET ASSETS AT THE BEGINNING OF THE YEAR</b>	<b>500,303</b>	<b>465,318</b>
<b>NET ASSETS AT THE END OF THE YEAR</b>	<b>559,765</b>	<b>500,303</b>

See accompanying Notes to the Audited Financial Statements.



# AUDITED STATEMENT OF CASH FLOWS

For the year ended to 31 December 2019

	01.01.19 31.12.19 US\$'000	01.01.18 31.12.18 US\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in net assets resulting from operations	59,462	34,985
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net investment loss allocated from the Master Fund	5,237	4,890
Net realised gain on investments allocated from the Master Fund	(8,371)	(72,315)
Net unrealised (gain)/loss on investments allocated from the Master Fund	(51,094)	96
Increase in Master Fund redemption proceeds receivable	(11,433)	-
Proceeds from sale of investment in the Master Fund	15,055	7,982
Foreign exchange (gains)/losses	(18,544)	23,246
Decrease/(increase) in prepaid expenses	18	(20)
Increase in performance fees payable	4,821	5,684
Increase in management fees payable	191	6
Decrease in accrued expenses and other liabilities	(2)	(76)
Decrease in Directors' fees payable	-	(70)
Decrease in administration fees payable	-	(9)
<b>NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES</b>	<b>(4,660)</b>	<b>4,399</b>
<b>CHANGE IN CASH</b>	<b>(4,660)</b>	<b>4,399</b>
<b>CASH, BEGINNING OF THE YEAR</b>	<b>5,676</b>	<b>1,080</b>
Effect of exchange rate fluctuations	(322)	197
<b>CASH, END OF THE YEAR</b>	<b>694</b>	<b>5,676</b>
<b>CASH, END OF THE YEAR</b>		
Cash and bank balances denominated in US Dollars	172	750
Cash and bank balances denominated in Sterling <sup>1</sup>	522	4,926
	<b>694</b>	<b>5,676</b>
<sup>1</sup> Cash and bank balances in Sterling (GBP'000)	394	3,868

See accompanying Notes to the Audited Financial Statements.

# NOTES TO THE AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. THE COMPANY

BH Macro Limited is a limited liability closed-ended investment company which was incorporated in Guernsey on 17 January 2007 and then admitted to the Official List of the London Stock Exchange ("LSE") later that year.

Currently, ordinary shares are issued in US Dollars and Sterling.

## 2. ORGANISATION

The Company is organised as a feeder fund and seeks to achieve its investment objective by investing all of its investable assets, net of short-term working capital requirements, in the ordinary US Dollar and Sterling denominated Class B shares issued by Brevan Howard Master Fund Limited (the "Master Fund") and, as such, the Company is directly and materially affected by the performance and actions of the Master Fund.

The Master Fund is an open-ended investment company with limited liability formed under the laws of the Cayman Islands on 22 January 2003. The investment objective of the Master Fund is to generate consistent long-term appreciation through active leveraged trading and investment on a global basis. The Master Fund employs a combination of investment strategies that focus primarily on economic change and monetary policy and market inefficiencies. The underlying philosophy is to construct strategies, often contingent in nature with superior risk/return profiles, whose outcome will often be crystallised by an expected event occurring within a pre-determined period of time. New trading strategies will be added as investment opportunities present themselves.

As such, the Audited Financial Statements of the Company should be read in conjunction with the Audited Financial Statements of the Master Fund which can be found on the Company's website, [www.bhmacro.com](http://www.bhmacro.com).

At the date of these Audited Financial Statements, there were two other feeder funds in operation in addition to the Company that invest all of their assets (net of working capital) in the Master Fund. Furthermore, Brevan Howard Multi-Strategy Master Fund Limited, another fund managed by the Manager, invests some of its assets in the Master Fund as at the date of these Financial Statements.

Off-Balance Sheet, market and credit risks of the Master Fund's investments and activities are discussed in the notes to the Master Fund's Audited Financial Statements. The Company's investment in the Master Fund exposes it to various types of risk, which are associated with the financial instruments and markets in which the Brevan Howard underlying funds invest.

Market risk represents the potential loss in value of financial instruments caused by movements in market factors including, but not limited to, market liquidity, investor sentiment and foreign exchange rates.

### The Manager

Brevan Howard Capital Management LP (the "Manager") is the Manager of the Company. The Manager is a Jersey Limited Partnership, the general partner of which is Brevan Howard Capital Management Limited, a Jersey Limited Company (the "General Partner"). The General Partner is regulated in the conduct of fund services business by the Jersey Financial Services Commission pursuant to the Financial Services (Jersey) Law 1998 and the Orders made thereunder.

The Manager also manages the Master Fund and in that capacity, as at the date of these Financial Statements, has delegated the function of investment management of the Master Fund to Brevan Howard Asset Management LLP, Brevan Howard (Hong Kong) Limited, Brevan Howard Investment Products Limited, Brevan Howard US Investment Management LP, Brevan Howard Private Limited, DW Partners, LP and BH-DG Systematic Trading LLP.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The Audited Financial Statements, which give a true and fair view, are prepared in conformity with United States Generally Accepted Accounting Principles and comply with the Companies (Guernsey) Law, 2008. The functional and reporting currency of the Company is US Dollars.

As further described in the Directors' Report, these Audited Financial Statements have been prepared using the going concern basis of accounting.

The Company is an Investment Entity which has applied the provisions of Accounting Standards Codification ("ASC") 946.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The following are the significant accounting policies adopted by the Company:

**Valuation of investments**

The Company records its investment in the Master Fund at fair value. Fair value is determined as the Company's proportionate share of the Master Fund's capital, which approximates fair value. At 31 December 2019, the Company is the sole investor in the Master Fund's ordinary US Dollar and Sterling Class B shares as disclosed below. Within the table below, the investment in each share class in the Master Fund is included, with the overall total investment shown in the Audited Statement of Assets and Liabilities.

	PERCENTAGE OF MASTER FUND'S CAPITAL	NAV PER SHARE (CLASS B)	SHARES HELD IN THE MASTER FUND (CLASS B)	INVESTMENT IN MASTER FUND CCY '000	INVESTMENT IN MASTER FUND US\$'000
<b>31 DECEMBER 2019</b>					
US Dollar	2.17%	\$3,635.03	18,082	\$65,734	65,734
Sterling	16.27%	£3,674.06	101,291	£372,147	492,872
					<b>558,606</b>
<b>31 DECEMBER 2018</b>					
US Dollar	2.69%	\$3,234.22	20,315	\$65,704	65,704
Sterling	17.81%	£3,321.41	102,785	£341,390	434,863
					<b>500,567</b>

ASC Topic 820 defines fair value as the price that the Company would receive upon selling a security in an orderly transaction to an independent buyer in the principal or most advantageous market of the security.

The valuation and classification of securities held by the Master Fund is discussed in the notes to the Master Fund's Audited Financial Statements which are available on the Company's website, [www.bhmacro.com](http://www.bhmacro.com).

**Income and expenses**

The Company records monthly its proportionate share of the Master Fund's income, expenses and realised and unrealised gains and losses. In addition, the Company accrues its own income and expenses.

**Use of estimates**

The preparation of Financial Statements in conformity with United States Generally Accepted Accounting Principles 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 those Financial Statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

## NOTES TO THE AUDITED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leverage

The Manager has discretion, subject to the prior approval of a majority of the independent Directors, to employ leverage for and on behalf of the Company by way of borrowings to effect share purchases or share buy-backs, to satisfy working capital requirements and to finance further investments in the Master Fund.

The Company may borrow up to 20% of its NAV, calculated as at the time of borrowing. Additional borrowing over 20% of NAV may only occur if approved by an ordinary resolution of the Shareholders.

#### Foreign exchange

Investment securities and other assets and liabilities of the Sterling share class are translated into US Dollars, the Company's reporting currency, using exchange rates at the reporting date. Transactions reported in the Audited Statement of Operations are translated into US Dollar amounts at the date of such transactions. The share capital and other capital reserve accounts are translated at the historic rate ruling at the date of the transaction. Exchange differences arising on translation are included in the Audited Statement of Operations. This adjustment has no effect on the value of net assets allocated to the individual share classes.

#### Cash and bank balances

Cash and bank balances comprise demand deposits.

#### Allocation of results of the Master Fund

Net realised and unrealised gains/losses of the Master Fund are allocated to the Company's share classes based upon the percentage ownership of the equivalent Master Fund class.

#### Treasury shares

Where the Company has purchased its own share capital, the consideration paid, which includes any directly attributable costs, has been recognised as a deduction from equity Shareholders' funds through the Company's reserves.

If such shares were to be subsequently sold or reissued to the market, any consideration received, net of any directly attributable incremental transaction costs, would be recognised as an increase in equity Shareholders' funds through the share capital account. Where the Company cancels treasury shares, no further adjustment is required to the share capital account of the Company at the time of cancellation. Shares held in treasury are excluded from calculations when determining NAV per share as detailed in note 7 and in the Financial Highlights in note 9.

Refer to note 8 for details of the purchases by the Company of its share capital.

#### New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-13, Fair Value Measurements (Topic 820): Changes to the Disclosure Requirements for Fair Value Measurements. ASU 2018-13 eliminates the requirement to disclose (i) transfers between level 1 and level 2 of the fair value hierarchy, (ii) the policy for timing of transfers between levels, (iii) valuation processes and (iv) for non public entities, changes in unrealised gains/losses for the year included in earnings for recurring Level 3 fair value measurements. The ASU also modifies existing disclosure requirements for the rollforward of Level 3 fair value measurements as well as disclosures of the timing of liquidating distributions from portfolio investments. The amendments are effective for annual periods beginning after 15 December 2019 and early adoption is permitted. The Master Fund has not early adopted ASU 2018-13 for the Audited Financial Statements as of 31 December 2019. The Company anticipates that the adoption of ASU 2018-13 for the year ended 31 December 2020 will not have a material impact on the financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash, which requires the Statement of Cash Flows to explain the change during the year in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of the year and end of the year total amounts shown in the Audited Statement of Cash Flows. The Company adopted ASU 2016-18 on a retrospective basis as of 1 January 2019. The Company adopted ASU 2016-18 on a retrospective basis as of 1 January 2019, but the pronouncement has not materially affected the financial statements, due to the Company holding no restricted cash.

#### 4. MANAGEMENT, PERFORMANCE AND ADMINISTRATION AGREEMENTS

##### Management and performance fee

The Company has entered into a Management Agreement with the Manager to manage the Company's investment portfolio. The management fee charged by the Company is reduced by the Company's share of management fees incurred by the Master Fund through any underlying investments of the Master Fund that share the same manager as the Company. The management fee charged is 1/12 of 0.5% per month of the NAV. The investment in the Class B shares of the Master Fund is not subject to management fees, but is subject to an operational services fee payable to the Manager of 1/12 of 0.5% per month of the NAV.

The Manager does not charge the Company a management fee in respect of any increase in the NAV of each class of shares in excess of its level on 1 April 2017, as if the Company's 2017 tender offer had completed on that date, resulting from performance or any own share purchases or redemptions. The Company's investment in the Master Fund also does not bear an operational services fee in respect of performance related growth in its investment in the Master Fund.

During the year ended 31 December 2019, US\$2,281,263 (31 December 2018: US\$2,354,588) was earned by the Manager as net management fees. At 31 December 2019, US\$394,432 (31 December 2018: US\$203,414) of the fee remained outstanding.

The Manager is also entitled to an annual performance fee for both share classes. The performance fee is equal to 20% of the appreciation in the NAV per share of that class during that calculation period which is above the base NAV per share of that class, other than that arising to the remaining shares of the relevant class from any repurchase, redemption or cancellation of any share in the calculation period. The base NAV per share is the greater of the NAV per share of the relevant class at the time of issue of such share and the highest NAV per share achieved as at the end of any previous calculation period.

The Manager will be paid an estimated performance fee on the business day preceding the last business day of each calculation period. Within 5 business days of the publication of the final NAV of each class of shares as at the end of the calculation period, any difference between the actual performance fee and the estimated amount will be paid to or refunded by the Manager, as appropriate. Any accrued performance fee in respect of shares which are converted into another share class prior to the date on which the performance fee would otherwise have become payable in respect of those shares will crystallise and become payable on the date of such conversion. The performance fee is

accrued on an ongoing basis and is reflected in the Company's published NAV. During the year ended 31 December 2019, US\$10,196,480 (31 December 2018: US\$5,903,616) was earned by the Manager as performance fees. At 31 December 2019, US\$10,504,617 (31 December 2018: US\$5,683,990) of the fee remained outstanding.

The Master Fund may hold investments in other funds managed by the Manager. To ensure that Shareholders of the Company are not subject to two tiers of fees, the fees paid to the Manager as outlined above are reduced by the Company's share of any fees paid to the Manager by the underlying Master Fund investments, managed by the Manager.

The Management Agreement may be terminated by either party giving the other party not less than 3 months' written notice. In certain circumstances, the Company will be obliged to pay compensation to the Manager of the aggregate management fees which would otherwise have been payable during the 3 months following the date of such notice and the aggregate of any accrued performance fee in respect of the current calculation period. Compensation is not payable if more than 3 months' notice of termination is given.

The notice period for termination of the Management Agreement without cause by both the Company and the Manager was reduced from 24 months to 3 months, with effect from 1 April 2019.

##### Administration fee

The Company has appointed Northern Trust International Fund Administration Services (Guernsey) Limited as Administrator and Corporate Secretary. The Administrator is paid fees based on the NAV of the Company, payable quarterly in arrears. The fee is at a rate of 0.015% of the average month end NAV of the Company, subject to a minimum fee of £67,500 per annum. In addition to the NAV based fee, the Administrator is also entitled to an annual fee of £6,000 (31 December 2018: £6,000) for certain additional administration services. The Administrator is entitled to be reimbursed for out-of-pocket expenses incurred in the course of carrying out its duties as Administrator. During the year ended 31 December 2019, US\$94,049 (31 December 2018: US\$94,382) was earned by the Administrator as administration fees. The amounts outstanding are disclosed on the Audited Statement of Assets and Liabilities.

## NOTES TO THE AUDITED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

### 5. SHARE CAPITAL

#### Issued and authorised share capital

The Company has the power to issue an unlimited number of ordinary shares with no par value and an unlimited number of shares with a par value. Shares may be divided into at least two classes denominated in US Dollar and Sterling. Further issue of shares may be made in accordance with the Articles. Shares may be issued in differing currency classes of ordinary redeemable shares including C shares. The treasury shares have arisen as a result of the discount management programme as described in note 8. The tables below show the movement in ordinary and treasury shares.

For the year ended 31 December 2019

	US DOLLAR SHARES	STERLING SHARES
<b>NUMBER OF ORDINARY SHARES</b>		
In issue at 1 January 2019	2,664,541	14,136,242
Share conversions	(222,484)	173,798
<b>IN ISSUE AT 31 DECEMBER 2019</b>	<b>2,442,057</b>	<b>14,310,040</b>
<b>NUMBER OF TREASURY SHARES</b>		
In issue at 1 January 2019 and 31 December 2019	331,228	1,450,652
Percentage of class	11.94%	9.20%

For the year ended to 31 December 2018

	US DOLLAR SHARES	STERLING SHARES
<b>NUMBER OF ORDINARY SHARES</b>		
In issue at 1 January 2018	2,782,034	14,046,048
Share conversions	(117,493)	90,194
<b>In issue at 31 December 2018</b>	<b>2,664,541</b>	<b>14,136,242</b>
<b>NUMBER OF TREASURY SHARES</b>		
In issue at 1 January 2018 and 31 December 2018	331,228	1,450,652
Percentage of class	11.06%	9.31%

#### Share classes

In respect of each class of shares, a separate class account has been established in the books of the Company. An amount equal to the aggregate proceeds of issue of each share class has been credited to the relevant class account. Any increase or decrease in the NAV of the Master Fund US Dollar shares and Master Fund Sterling shares as calculated by the Master Fund is allocated to the relevant class account in the Company. Each class account is allocated those costs, prepaid expenses, losses, dividends, profits, gains and income which the Directors determine in their sole discretion relate to a particular class.

## 5. SHARE CAPITAL (CONTINUED)

### Voting rights of shares

Ordinary shares carry the right to vote at general meetings of the Company and to receive any dividends attributable to the ordinary shares as a class declared by the Company and, in a winding-up will be entitled to receive, by way of capital, any surplus assets of the Company attributable to the ordinary shares as a class in proportion to their holdings remaining after settlement of any outstanding liabilities of the Company.

As prescribed in the Company's Articles, the different classes of ordinary shares have different values attributable to their votes. The attributed values have been calculated on the basis of the Weighted Voting Calculation (as described in the Articles) which takes into account the prevailing exchange rates on the date of initial issue of ordinary shares. On a vote, a single US Dollar ordinary share has 0.7606 votes and a single Sterling ordinary share has 1.4710 votes.

Treasury shares do not have any voting rights.

### Repurchase of ordinary shares

Under the Company's Articles, Shareholders of a class of shares have the ability to call for repurchase of that class of shares in certain circumstances. See note 8 for further details.

### Further issue of shares

As approved by the Shareholders at the Annual General Meeting held on 20 June 2019, the Directors have the power to issue further shares totalling 867,004 US Dollar shares and 5,068,228 Sterling shares, respectively and, as described in the Company's announcement on 4 June 2019, shall limit the use of authority in respect of the Sterling shares to 4,727,417 Sterling shares. This power expires fifteen months after the passing of the resolution or on the conclusion of the next Annual General Meeting of the Company, whichever is earlier, unless such power is varied, revoked or renewed prior to that Meeting by a resolution of the Company in general meeting.

### Distributions

The Master Fund has not previously paid dividends to its investors. This does not prevent the Directors of the Company from declaring a dividend at any time in the future if the Directors consider payment of a dividend to be appropriate in the circumstances. If the Directors declare a dividend, such dividend will be paid on a per class basis.

As announced on 15 January 2014, the Company intends to be operated in such a manner to ensure that its shares are not categorised as non-mainstream pooled investments. This may mean that the Company may pay dividends in respect of

any income that it receives or is deemed to receive for UK tax purposes so that it would qualify as an investment trust if it were UK tax-resident.

Further, the Company will first apply any such income in payment of its management and performance fees.

Treasury shares are not entitled to distributions.

### Share conversion scheme

The Company has implemented a share conversion scheme. The scheme provides Shareholders with the ability to convert some or all of their ordinary shares in the Company of one class into ordinary shares of the other class. Shareholders are able to convert ordinary shares on the last business day of every month. Each conversion will be based on the NAV (note 7) of the shares of the class to be converted.

## 6. TAXATION

### Overview

The Company is exempt from taxation in Guernsey under the provisions of the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

### Uncertain tax positions

The Company recognises the tax benefits of uncertain tax positions only where the position is more-likely-than-not (i.e. greater than 50%), to be sustained assuming examination by a tax authority based on the technical merits of the position. In evaluating whether a tax position has met the recognition threshold, the Company must presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognise in the Company's Audited Financial Statements. Income tax and related interest and penalties would be recognised by the Company as tax expense in the Audited Statement of Operations if the tax positions were deemed not to meet the more-likely-than-not threshold.

The Company analyses all open tax years for all major taxing jurisdictions. Open tax years are those that are open for examination by taxing authorities, as defined by the Statute of Limitations in each jurisdiction. The Company identifies its major tax jurisdictions as: Guernsey; the Cayman Islands; and foreign jurisdictions where the Company makes significant investments. The Company has no examinations by tax authorities in progress.



## NOTES TO THE AUDITED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

### 6. TAXATION (CONTINUED)

The Directors have analysed the Company's tax positions, and have concluded that no liability for unrecognised tax benefits should be recorded related to uncertain tax positions. Further, the Directors are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognised tax benefits will significantly change in the next twelve months.

### 7. PUBLICATION AND CALCULATION OF NET ASSET VALUE ("NAV")

The NAV of the Company is equal to the value of its total assets less its total liabilities. The NAV per share of each class will be calculated by dividing the NAV of the relevant class account by the number of shares of the relevant class in issue on that day.

The Company publishes the NAV per share for each class of shares as calculated by the Administrator based in part on information provided by the Master Fund, monthly in arrears, as at each month-end.

The Company also publishes an estimate of the NAV per share for each class of shares as calculated by the Administrator based in part on information provided by the Master Fund, weekly in arrears.

### 8. DISCOUNT MANAGEMENT PROGRAMME

The Company has previously implemented a number of methods in order to seek to manage any discount to NAV at which the Company's shares trade.

#### Market purchases

Until October 2016, the Company regularly utilised its ability to make market purchases of its shares as part of the discount management programme. The purchase of these shares was funded by the Company redeeming underlying shares in the Master Fund. The number of shares held in treasury as at 31 December 2019 is disclosed in note 5.

However, following the completion of the Tender Offer in April 2017, the Company was not permitted to redeem its investment in the Master Fund to finance own-share purchases before 1 April 2019. For much of the period since that date, the Company's shares have traded at a premium or minimal discount to NAV. However, if the Company's shares were again to trade at wide or volatile discounts to NAV in the future, it would be the Board's intention to consider resuming market purchases of shares.

#### Annual offer of partial return of capital

Under the Company's Articles of Incorporation, once in every calendar year the Directors have discretion to determine that the Company make an offer of a partial return of capital in respect of such number of shares of the Company in issue as they determined, provided that the maximum amount distributed did not exceed 100% of the increase in NAV of the Company in the prior calendar year.

The Directors have discretion to determine the particular class or classes of shares in respect of which a partial return of capital would be made, the timetable for that partial return of capital and the price at which the shares of each relevant class were returned.

The decision to make a partial return of capital in any particular year and the amount of the return depended, among other things, on prevailing market conditions, the ability of the Company to liquidate its investments to fund the capital return, the success of prior capital returns and applicable legal, regulatory and tax considerations.

As part of the Tender Offer that completed in April 2017 the annual partial capital return provisions were disapplied but have now been reinstated for the year ended 31 December 2019.

#### Class closure resolutions

If in the year from 1 January 2019 to 31 December 2019, any class of shares had traded at an average discount at or in excess of 8% of the monthly NAV (prior to 1 January 2018, a threshold of 10% applied in respect of the Company's class closure provisions), the Company would have held a class closure vote of the relevant class. The average premiums to NAV for the Sterling and US Dollar shares for the year were 0.44% and 1.15% respectively and consequently no closure vote will be held in 2020.

The Company's class closure provisions set out in the Articles of Incorporation have now been reinstated in respect of the twelve month period ended on 31 December 2019 and thereafter.

The arrangements are described more fully in the Company's principal documents which were approved at the EGM on 24 February 2017.



## 9. FINANCIAL HIGHLIGHTS

The following tables include selected data for a single ordinary share of each of the ordinary share classes in issue at 31 December 2019 and other performance information derived from the Financial Statements.

The per share amounts and ratios which are shown reflect the income and expenses of the Company for each class of ordinary share.

	31.12.19 US DOLLAR SHARES US\$	31.12.19 STERLING SHARES £
<b>PER SHARE OPERATING PERFORMANCE</b>		
Net asset value at beginning of the year	24.67	24.13
<b>INCOME FROM INVESTMENT OPERATIONS</b>		
Net investment loss*	(0.94)	(0.89)
Net realised and unrealised gain on investment	3.32	2.81
Other capital items**	(0.06)	0.01
<b>TOTAL GAIN</b>	<b>2.32</b>	<b>1.93</b>
<b>NET ASSET VALUE, END OF THE YEAR</b>		
	26.99	26.06
Total gain before performance fees	11.69%	9.97%
Performance fees	(2.31%)	(1.99%)
<b>TOTAL GAIN AFTER PERFORMANCE FEES</b>	<b>9.38%</b>	<b>7.98%</b>

Total return reflects the net return for an investment made at the beginning of the year and is calculated as the change in the NAV per ordinary share during the year from 1 January 2019 to 31 December 2019. An individual Shareholder's return may vary from these returns based on the timing of their purchase or sale of shares.

	31.12.19 US DOLLAR SHARES US\$'000	31.12.19 STERLING SHARES £'000
<b>SUPPLEMENTAL DATA</b>		
Net asset value, end of the year	65,907	372,893
Average net asset value for the year	66,034	362,275

# NOTES TO THE AUDITED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

## 9. FINANCIAL HIGHLIGHTS (CONTINUED)

	31.12.19 US DOLLAR SHARES	31.12.19 STERLING SHARES
<b>RATIO TO AVERAGE NET ASSETS</b>		
Operating expenses		
Company expenses***	0.61%	0.59%
Master Fund expenses****	1.71%	1.73%
Master Fund interest expenses*****	3.43%	3.49%
Performance fees	2.18%	1.89%
	<b>7.93%</b>	<b>7.70%</b>
Net investment loss before performance fees*	(1.43%)	(1.59%)
Net investment loss after performance fees*	(3.61%)	(3.48%)
	31.12.18 US DOLLAR SHARES US\$	31.12.18 STERLING SHARES £
<b>PER SHARE OPERATING PERFORMANCE</b>		
Net asset value at beginning of the year	21.62	21.47
<b>INCOME FROM INVESTMENT OPERATIONS</b>		
Net investment loss*	(0.63)	(0.66)
Net realised and unrealised gain on investment	3.75	3.31
Other capital items**	(0.07)	0.01
<b>TOTAL GAIN</b>	<b>3.05</b>	<b>2.66</b>
<b>NET ASSET VALUE, END OF THE YEAR</b>	<b>24.67</b>	<b>24.13</b>
Total gain before performance fees	15.32%	13.73%
Performance fees	(1.16%)	(1.30%)
<b>TOTAL GAIN AFTER PERFORMANCE FEES</b>	<b>14.16%</b>	<b>12.43%</b>

Total return reflects the net return for an investment made at the beginning of the year and is calculated as the change in the NAV per ordinary share during the year from 1 January 2018 to 31 December 2018. An individual Shareholder's return may vary from these returns based on the timing of their purchase or sale of shares.

	31.12.18 US DOLLAR SHARES US\$'000	31.12.18 STERLING SHARES £'000
<b>SUPPLEMENTAL DATA</b>		
Net asset value, end of the year	65,745	341,151
Average net asset value for the year	63,940	325,195

**9. FINANCIAL HIGHLIGHTS (CONTINUED)**

	31.12.18 US DOLLAR SHARES	31.12.18 STERLING SHARES
<b>RATIO TO AVERAGE NET ASSETS</b>		
Operating expenses		
Company expenses***	0.62%	0.65%
Master Fund expenses****	1.62%	1.64%
Master Fund interest expenses*****	1.15%	1.14%
Performance fees	1.06%	1.21%
	<b>4.45%</b>	<b>4.64%</b>
<b>Net investment loss before performance fees*</b>	<b>(1.62%)</b>	<b>(1.63%)</b>
<b>Net investment loss after performance fees*</b>	<b>(2.68%)</b>	<b>(2.84%)</b>

**Notes**

\* The net investment loss figures disclosed above, does not include net realised and unrealised gains/losses on investments allocated from the Master Fund.

\*\* Included in other capital items are the discounts and premiums on conversions between share classes and on the sale of treasury shares as well as any partial capital return effected in the relevant year as compared to the NAV per share at the beginning of the year.

\*\*\* Company expenses are as disclosed in the Audited Statement of Operations excluding the performance fee and foreign exchange gains/losses.

\*\*\*\* Master Fund expenses are the operating expenses of the Master Fund excluding the interest and dividend expenses of the Master Fund.

\*\*\*\*\* Master Fund interest expenses include interest and dividend expenses on investments sold short.

**10. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions.

Management and performance fees are disclosed in note 4.

The Company's Articles limit the fees payable to Directors in aggregate to £400,000 per annum. Until 19 June 2019, the annual fees were £65,000 for Huw Evans, the Chairman, £47,500 for John Le Poidevin, the Chair of the Audit Committee, £45,000 for Claire Whittet, the Chair of the Management Engagement Committee, £45,000 for Colin Maltby as Senior Independent Director and £40,000 for all other Directors.

Between 20 June 2019 and 30 September 2019, annual fees remained the same as above, except for Colin Maltby, who was paid at a rate of £65,000 per annum after succeeding Huw Evans as Chairman and £47,500 per annum for Claire Whittet, who was appointed Senior Independent Director.

From 1 October 2019, the annual Director's fees were £70,000 for Colin Maltby, the Chairman, £55,000 for John Le Poidevin, the Chair of the Audit Committee, £50,000 for Claire Whittet, as Chair of the Management Engagement Committee and the Senior Independent Director and £45,000 for all other Directors.

On 22 January 2019, John Le Poidevin purchased 3,222 Sterling Class Shares.

On 26 March 2019, Colin Maltby purchased 500 US Dollar Class Shares and 3,000 Sterling Class Shares.

## NOTES TO THE AUDITED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2019

### 11. SUBSEQUENT EVENTS

The Directors have evaluated subsequent events up to 24 March 2020, which is the date that the Audited Financial Statements were available to be issued, and have concluded there are no further items that require disclosure or adjustment to the Audited Financial Statements, other than those listed below.

Since the start of January 2020, the outbreak of coronavirus, which is a rapidly evolving situation, has adversely impacted global commercial activities. The rapid development and fluidity of this situation precludes any prediction as its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The Directors do not believe there is any financial impact to the Financial Statements as at 31 December 2019 as a result of this subsequent event.

The Manager is monitoring developments relating to coronavirus and is coordinating its operational response based on existing business continuity plans and on guidance from global health organisations, relevant governments, and general pandemic response best practices.

On 20 February 2020, 25,000 Sterling Class Shares were sold from Treasury for 2,621.4 pence per share.

On 12 March 2020, 125,000 Sterling Class Shares were sold from Treasury for 2,943.0 pence per share.

## HISTORIC PERFORMANCE SUMMARY

	31.12.19 US\$'000	31.12.18 US\$'000	31.12.17 US\$'000	31.12.16 US\$'000	31.12.15 US\$'000
Net increase/(decrease) in net assets resulting from operations	59,462	34,985	4,725	(150,245)	(91,220)
TOTAL ASSETS	570,779	506,307	465,787	866,740	1,499,648
TOTAL LIABILITIES	(11,014)	(6,004)	(469)	(1,897)	(4,755)
NET ASSETS	559,765	500,303	465,318	864,843	1,494,893
<b>NUMBER OF SHARES IN ISSUE</b>					
US Dollar shares	2,442,057	2,664,541	2,782,034	9,975,524	17,202,974
Euro shares	–	–	–	1,514,872	4,163,208
Sterling shares	14,310,040	14,136,242	14,046,048	22,371,669	33,427,871
<b>NET ASSET VALUE PER SHARE</b>					
US Dollar shares	US\$26.99	US\$24.67	US\$21.62	US\$21.68	US\$20.33
Euro shares	–	–	–	€21.87	€20.56
Sterling shares	£26.06	£24.13	£21.47	£22.44	£21.21

## AFFIRMATION OF THE COMMODITY POOL OPERATOR

31 December 2019

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To the best of my knowledge and belief, the information detailed in this Annual Report and these Audited Financial Statements is accurate and complete.

By:



**Name:** Reamonn O'Sullivan

**Title:** Head of Compliance and Authorised Signatory

Brevan Howard Capital Management Limited as general partner of Brevan Howard Capital Management LP, the manager and commodity pool operator of BH Macro Limited

24 March 2020

## GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

### Alternative Performance Measures ("APMS")

We assess our performance using a variety of measures that are not specifically defined under US GAAP and therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies.

### Average Premium/Discount to NAV

The average premium/discount to NAV of the whole year is calculated for each share class by using the following formula:

$$\frac{A - B}{B}$$

Where:

- 'A' is the average closing market price of a share of the share class as derived from the trading price on the London Stock Exchange, calculated as the sum of all the closing market prices per share of that class as at each London Stock Exchange trading day during a calendar year, divided by the number of such trading days in such period; and
- 'B' is the average Net Asset Value per share of the shares of the share class taken over the 12 NAV Calculation Dates in a calendar year calculated as the sum of the final Net Asset Value of the share class as at each NAV Calculation Date during a calendar year, divided by 12.

### Discount/Premium

If the share price of an investment is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium. The Board monitors the level of discount or premium and consideration is given to ways in which share price performance may be enhanced, including the effectiveness of marketing and share buy-backs, where appropriate. The premium/discount is shown below.

	US DOLLAR SHARES 31.12.19	US DOLLAR SHARES 31.12.18	STERLING SHARES 31.12.19	STERLING SHARES 31.12.18
Share Price at Year End "(A)"	\$27.40	\$24.60	£26.10	£23.65
NAV per Share "(B)"	\$26.99	\$24.67	£26.06	£24.13
Premium/(Discount) to NAV "(A-B)/B"	1.52%	(0.28%)	0.15%	(1.99%)

## GLOSSARY OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES CONTINUED

### Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses, excluding finance costs, performance fees, share issue or buyback costs and non-recurring legal and professional fees, expressed as a percentage of the average of the daily net assets during the year (see page 12). The Board continues to be conscious of expenses and works hard to maintain a sensible balance between good quality service and cost. The ongoing charges calculation is shown below:

	US DOLLAR SHARES YEAR ENDED		STERLING SHARES YEAR ENDED	
	31.12.19	31.12.18	31.12.19	31.12.18
Average NAV for the year (A)	\$66,033,640	\$63,939,510	£362,275,318	£325,195,194
Management fees	\$277,326	\$300,188	£1,566,321	£1,545,243
Other Company expenses	\$124,616	\$97,538	£552,410	£556,953
<b>TOTAL COMPANY EXPENSES</b>	<b>\$401,942</b>	<b>\$397,726</b>	<b>£2,118,731</b>	<b>£2,102,196</b>
Expenses allocated from the Master Fund	\$398,891	\$409,159	£2,356,180	£2,088,573
Performance fees	\$1,437,594	\$679,789	£6,846,136	£3,928,561
<b>TOTAL EXPENSES (B)</b>	<b>\$2,238,427</b>	<b>\$1,486,674</b>	<b>£11,321,047</b>	<b>£8,119,330</b>
Ongoing Charges B/A	3.40%	2.32%	3.13%	2.49%

### Net Asset Value ("NAV")

The NAV is the net assets attributable to shareholders that is, total assets less total liabilities, expressed as an amount per individual share.

### Return per Share

Return per share is calculated using the net return on ordinary activities after finance costs and taxation (US\$5,791,771 and £27,463,793) divided by the weighted average number of shares in issue for the year ended 31 December 2019 (2,442,057 US Dollar shares and 14,310,040 Sterling shares). The Directors also regard return per share to be a key indicator of performance. The return per share is shown on page 7 in the Strategic Report.



# NOTES

## NOTES

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# COMPANY INFORMATION

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## Directors

Colin Maltby (Chairman, from 20 June 2019)

Huw Evans (Chairman and Director, until his retirement on 20 June 2019)

Bronwyn Curtis (appointed 1 January 2020)

Richard Horlick (appointed 1 May 2019)

John Le Poidevin

Claire Whittet

*(All Directors are non-executive and independent for the purpose of Listing Rule 15.2.12-A)*

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## Registered Office

PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
Channel Islands GY1 3QL

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## Manager

Brevan Howard Capital Management LP  
6th Floor  
37 Esplanade  
St Helier  
Jersey  
Channel Islands JE2 3QA

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## Administrator and Corporate Secretary

Northern Trust International Fund  
Administration Services (Guernsey) Limited  
PO Box 255  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
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## Independent Auditor

KPMG Channel Islands Limited  
Gategny Court  
Gategny Esplanade  
St Peter Port  
Guernsey  
Channel Islands GY1 1WR

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## Registrar and CREST Service Provider

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Tudor House  
Le Bordage  
St Peter Port  
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## Legal Advisors (Guernsey Law)

Carey Olsen  
Carey House  
Les Banques  
St Peter Port  
Guernsey  
Channel Islands GY1 4BZ

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## Legal Advisors (UK Law)

Hogan Lovells International LLP  
Atlantic House  
Holborn Viaduct  
London EC1A 2FG

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## Corporate Broker

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Canary Wharf  
London E14 5JP

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## Tax Adviser

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For the latest information  
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