Results analysis: BH Macro

BHMG reports its interim results...

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- **The NAV per share performance in the six-month period to 30/06/2024 has been slightly negative, being -1.10% for the Sterling share class and -1.54% for the US Dollar share class. As at the time of writing, the most recent NAV reflects a significant improvement from this position, with the NAV per share for the Sterling share class now up 3.9% over the calendar year to 27/09/2024, whilst the NAV per share for the US Dollar share class was up 3.2% over the same period.**

- **In the interims, the manager of BH Macro Limited (“BH Macro” or “BHMG”) provides macro commentary covering the first half of the year. At the start of 2024, Brevan Howard was broadly positioned for slowing US growth, better balance between supply and demand in the labour market, and continued moderation in wage and price inflation. In the event, growth and the labour market did slow as the first half of the year unfolded, but there was a widespread surge in inflation in Q1. Higher inflation pushed back the Federal Reserve’s plans to dial back the degree of monetary policy restraint. After the first quarter’s inflation shock in the US, inflation slowed noticeably across the board in Q2. Core Personal Consumption Expenditures (“PCE”) inflation is on track to fall faster during the rest of the year than the Fed anticipated in its June Federal Open Market Committee (“FOMC”) Summary of Economic Projections. The labour market is weakening by more than the Fed anticipated as well, with the unemployment rate currently at 4.1% compared with the Fed’s median projection of 4.0% in Q4. Finally, growth is slowing from the torrid pace set last year to a trend-like pace.**

- **The contribution to the performance of the NAV per share of BH Macro’s Sterling share class from different asset classes over the interim period is shown below. As the table illustrates, and as might be inferred from the commentary above, rates were the main detractor during the first quarter, whilst digital assets and discount management (buybacks) were the main contributor. In Q2, rates and FX were both positive, to some extent offset by digital assets and equity.**

- **Over the six months to 30/06/2024, assisted by BH Macro’s share buyback programme that was initiated in December 2023, the discount narrowed from 10.71% (as at 31/12/2023) to 8.62% (as at 30/06/2024) for the Sterling share class, and similarly from 11.71% (as at 31/12/2023) to 9.29% (as at 30/06/2024) for the US Dollar share class. Since 30 June 2024, BH Macro has bought back a further 3.9m GBP shares, equating to 1.1% of the shares in issue. No USD shares have been bought back.**

Quarterly And Annual Contribution (%) To Performance: BH Macro GBP NAV (Net Of Fees)

	RATES	FX	COMMODITIES	CREDIT	EQUITY	DIGITAL ASSETS	DISCOUNT MANAGEMENT	TOTAL
Q1 24	-3.79	0.34	0.04	0.01	0.17	1.07	0.39	-1.78
Q2 24	0.25	0.74	0.13	0.04	-0.26	-0.42	0.21	0.68
H1 2024	-3.55	1.07	0.17	0.05	-0.08	0.65	0.60	-1.1

Source: Brevan Howard Capital Management

- **BH Macro's annualized on-going charges ratio for the six-month period was 2.18% (GBP shares), a very slight rise from the 2.16% reported for the year ending 31/12/2023.**

- **In BH Macro's Chairman's statement, chairman Richard Horlick notes: "The entire closed-ended fund sector is subject to greater pressure than at any other time in my more than 40 years' experience of it", noting that, "The Board remains convinced of the value of the Company and its strategy and the quality of the Manager and looks forward to delivering the highly diversifying positive returns, which the Company has delivered time and again over the past 17 years".**

Kepler View

The Chairman notes the "highly diversifying" returns that **BH Macro (BHMG)** has delivered historically. In an equity market that has so far this year largely seen 'more of the same' positive momentum, it is perhaps not surprising that BH Macro's performance – which has traditionally been uncorrelated to equities – has not been noteworthy. That said, the market panic that global markets experienced during the first week of August gave us a helpful reminder of the diversifying potential that is underneath BH Macro's bonnet. During the first week of August 2024, the S&P 500 fell by 5.8% and the Nikkei 225 fell by 10.3%. During the same week, BH Macro's observable GBP share class NAV rose by 2.2%. In our view, this shows the positive role as a diversifier that BH Macro offers. When markets bounced back, unfortunately BH Macro gave back much of these gains. However, one can only speculate what NAV returns would have been like if markets hadn't rebounded. In our view, BH Macro's place as a diversifier in an equity portfolio remains secure.

With the likelihood of more choppy waters ahead, investors could do well to consider how best to protect against another market wobble. The path for developed market inflation and interest rates remains uncertain with market expectations shifting day-by-day – we believe this presents a compelling backdrop for the BH Macro strategy. BH Macro has tended to deliver positive returns during times of equity market stress. In the S&P 500's 20 months of worst performance since 2007, BH Macro has significantly outperformed the index, delivering a positive GBP share price return in all but five of those months, with an average monthly share price return of 3.66% (GBP Share class, net of fees).

In the interims, Brevan Howard notes that all three parts of its US macro outlook are moving in a consistent direction, reinforcing Brevan Howard's confidence in it. "After several years of one-sided inflation risks, the risks to growth and inflation have moved into balance. That is a major strategic change in the macro landscape which necessitates a similarly major change in US monetary policy strategy with global implications". In our view, BH Macro is uniquely positioned to benefit from diverging potential outcomes within developed market economies. With BH Macro's discount to NAV now back in double figures, and performance so far during September showing significant signs of improvement, this could prove an attractive entry point to the flagship strategy of one of the most successful hedge funds of all time.

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