



Results analysis: BH Macro

BH Macro rebounds in H2 of 2023...

Update
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- BH Macro has reported a NAV total return of -1.81% for the sterling share class (BHMG) and -1.44% for the dollar share class (BHMU), for the financial year ending 31/12/2023. By the Chairman's admission, it was something of a "rollercoaster year", as the first half saw the NAV per sterling share down 6%, before a recovery in the second half.
- Turmoil in rates markets in the first quarter contributed to the failures of Silicon Valley Bank and Credit Suisse. The Master Fund (in which BH Macro invests) was positioned for rising interest rates, but short rates fell sharply as the crisis unfolded (which the chairman of the board described as "the greatest reversal in interest rate expectations for 40 years"), negatively impacting returns. The risk management team eliminated these loss-making directional positions within two days.
- The second half of the year was much better, and saw BH Macro recover most of the lost ground, delivering five positive NAV months out of six. Over the year, positions in the interest rates market were the largest contributor to the USD NAV return overall, at +1.75%. Digital assets and credit also contributed positively to performance, while FX, equity and commodities detracted over the year as a whole.
- The shares moved from a large premium to a discount over the year, contributing to a sterling share price return of -18.3% for 2023, and the discount to NAV finishing the year at 11.7%. Discounts across the sector have widened, but the NAV falls in Q1 2023 and fears of an overhang of stock following the merger of two of the trust's largest shareholders, Investec and Rathbones have also likely contributed. The merged entity held 27% of BH Macro's shares as at 14/02/2024.
- In December, the board began a controlled buyback programme, and the discount marginally narrowed over the month. Buybacks have continued in 2024.
- Chairman of the board, Richard Horlick, said: "The geopolitical and economic environment remains highly uncertain. ... In these circumstances, your board believes that the company represents an attractive diversifying investment uncorrelated to both bond and equity markets."

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Kepler View

2023's result followed a stellar 2022 for **BH Macro (BHMG)**. The buyback programme provides some support to the share price rating, although we note that the discount has widened this year to 17.7% at the time of writing. The board notes that it continues to spend on communication and investor relations, with the aim of bringing new shareholders to the fund. Perhaps more importantly for long-term holders, the NAV performance improved markedly over the second half of the year, and with central bank policy now the topic of constant debate, the market environment is arguably much more conducive for Brevan Howard's traders. The collapse of Silicon Valley Bank was the result of what the chairman calls "the greatest reversal in interest rate expectation for 40 years" putting into context the severity of the move. We think it's important to note that BH Macro's excellent returns in 2022 came during a period of negative returns for equities and bonds, while 2023's more disappointing NAV returns came in the context of rallying equity markets, when one might argue that the diversifying features of the BH Macro proposition were less urgently needed.



The manager responded to Q1 2023 by reviewing the positioning and structure of the Master Fund. This led to a series of changes to capital allocations across strategies and portfolio managers, changes to several trading mandates and the closure of underperforming trading books. The manager reports that until late last year poor liquidity and choppy, trendless markets were unhelpful. The manager dampened the macro directional risk-taking in the Master Fund as a result, cognisant of elevated tail risks, especially related to leverage in the market. That the manager has responded with urgency to the changed macro environment is in our view encouraging from a shareholder's perspective.

Looking forward, the manager believes that the market should be more helpful for their macro trading strategies. The manager notes structurally higher interest rates and macroeconomic volatility look likely to persist, in stark contrast to the post-GFC period. Additionally, China's slowing economy and shifting political and economic policies look likely to be a cause of inflation and other disruptions, while greater geopolitical tension is leading to a more volatile environment in which countries are more constrained by poor balance sheets and fiscal positions than they have been in recent years. The board notes its ongoing confidence in the manager, Brevan Howard, having delivered good performance for over two decades for shareholders.

BH Macro's share price has clearly been under pressure, partially due to fears of an overhang of stock. However, the chairman's statement makes it clear that the Takeover Panel has stated that Investec / Rathbones is not required to make sales of the stock. We think it may be that the higher returns available on risk free assets have made it easier for investors to stay away, and so there may be an unlucky confluence of factors at play which have negatively affected the current discount. We think the strong track record of NAV returns, the uncorrelated source of returns and record as a portfolio diversifier make BH Macro an attractive proposition. While the discount may be uncomfortable to existing investors, we think it makes the shares look exceptionally attractive given the long-term strengths of the investment strategy.

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