



# DIVERSIFIED PROGRAM

## COMMENTARY + PORTFOLIO FACTS

JULY 2016

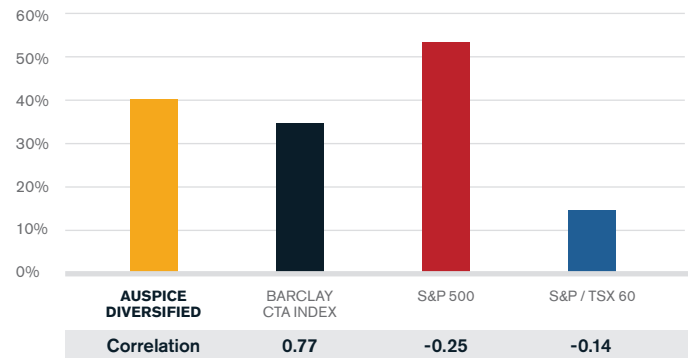
**AUSPICE** Capital Advisors

SUITE 510 - 1000 7TH AVE SW  
CALGARY, ALBERTA CANADA T2P 5L5



### CUMULATIVE PERFORMANCE

(SINCE JANUARY 2007\*)



\*Cumulative performance from January 2007. This represents the first full year of the fund and is most representative of the current strategy and portfolio.

## INVEST WITH AUSPICE

Call us  
**888 792 9291**

Visit us online to find out more  
**[auspicecapital.com](http://auspicecapital.com)**



Winner - 2014  
Altegris CTA Challenge



Silver Medal  
Best Opportunistic Hedge Fund - 2010

Futures trading is speculative and is not suitable for all customers. Past results are not necessarily indicative of future results. This document is for information purposes only and should not be construed as an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice. Auspice Capital Advisors Ltd. makes no representation or warranty relating to any information herein, which is derived from independent sources. No securities regulatory authority has expressed an opinion about the securities offered herein and it is an offence to claim otherwise. \*Returns represent the performance of the Auspice Managed Futures LP Series 1.

**SUMMARY**

The Auspice Diversified Program gained 2.44% in July adding to the positive first half result (See Table 1).

The global markets appear to have absorbed the news and events in June including Brexit which enabled assets to flow back into traditional assets after softening in June. Equities were strong, per Table 1, with the S&P 500 gaining over 3%.

While currencies and rates have calmed down, the intra-month volatility is high. For example, the US Dollar Index and the Yen closed largely unchanged on the month but had large moves up and down during the month (Yen +/- 5%).

Commodities also experienced significant volatility in July. On the surface, the broad indices were sharply lower yet this may mask the underlying strength of the asset class. Weakness in Energies and Grains pulled down the benchmarks significantly (e.g. S&P GSCI -9.59%), yet strength was available to offset this if one is tactical. e.g. Cotton gained over 15% and Silver rallied 9%. Yet another reminder that commodities cannot be considered a single asset and need to be invested tactically based on the individual component and sub-sector merits.

The strategy currently shows an outperformance to peer benchmarks for the month, in line for the year, and with outperformance long term as outlined in Table 1 per Barclay CTA Index. Along with outperformance long term, the correlation remains low and negative to equity market benchmarks (see cover page).

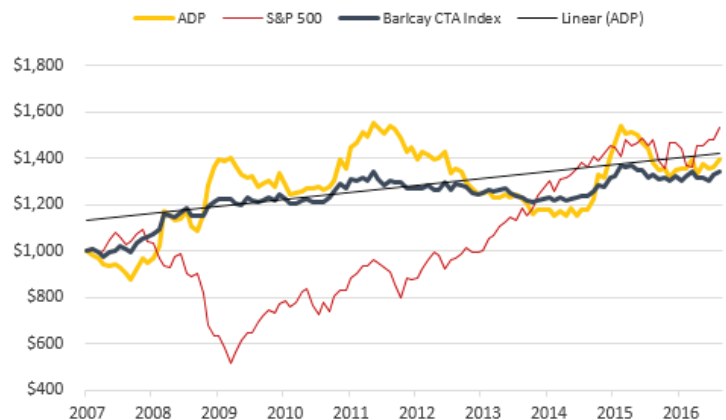
**OUTLOOK**

While financial markets appear to normalized and realized volatility has fallen to a lower level, overall trading volatility remains significant. This appears to be clouded by a very low and falling VIX level (now under 15).

We urge caution in the markets given the high levels of global equity markets and overall volatility. There remain a number of significant unknowns (e.g. US elections) not to mention the “unknown unknowns” that keep popping up globally.

We believe this is an ideal time to add or increase CTA/ Managed Futures exposure. This is especially valuable to a portfolio if it comes without high equity and financial risk. The added benefit of a low correlation to CTA peers is also important. At 0.54 correlation to the SG CTA Index (formerly Newedge CTA) on a 1 year basis (daily returns), the combined performance and non-correlation to other CTAs is valuable.

**Chart 1 HISTORICAL GROWTH OF \$1000 INVESTMENT**



**Table 1 ABSOLUTE PERFORMANCE**

	<b>Auspice Diversified</b>	<b>Barclay CTA Index</b>	<b>S&amp;P 500</b>	<b>TSX 60</b>
1 Month	<b>2.44%</b>	1.21%	3.56%	3.64%
2016 YTD	<b>2.65%</b>	2.97%	6.34%	10.83%
1 yr (Aug 15)	<b>1.11%</b>	1.02%	3.32%	-0.71%
3 yr (Aug 13)	<b>14.06%</b>	9.51%	28.93%	18.56%
9 yr (Aug 07)	<b>54.62%</b>	32.97%	49.35%	5.98%
Annualized (Jan 07)	<b>3.54%</b>	3.15%	4.55%	1.38%

## ATTRIBUTIONS AND TRADES

The portfolio had a strong diversity of positive returns from sectors, individual markets and distinct return drivers.

Gains came from 5 sectors led by Metals and complimented by Soft Commodities, Energies, Equities and Rates (see Chart 2). Losses came primarily from the Grains.

While Energies pulled back during the month, catching trend following systems long, our short term strategies captured much of the daily volatility pushing the sector result into positive territory (see Chart 3).

In Grains, we continued to reduce long positions and shifted to net short in some markets. We remain net long despite the sharp drop in Soybeans that pulled down the sector. While a negative contribution on the month, these trades were largely profitable. e.g. Soybean Meal was entered in April and exited at 4.5 times the risk taken.

Gains in the remaining sectors came from positions in Cotton, along with newly added Equity exposures and the Long Gilt (UK) exposure in Rates as Brexit fallout continues to drive interest rates lower.

**Return Drivers:** Trend following strategies were positive but the bulk of the return came from Short-Term strategies. Mean-reversion exposures contributed slightly per Chart 3.

## POSITION HIGHLIGHTS

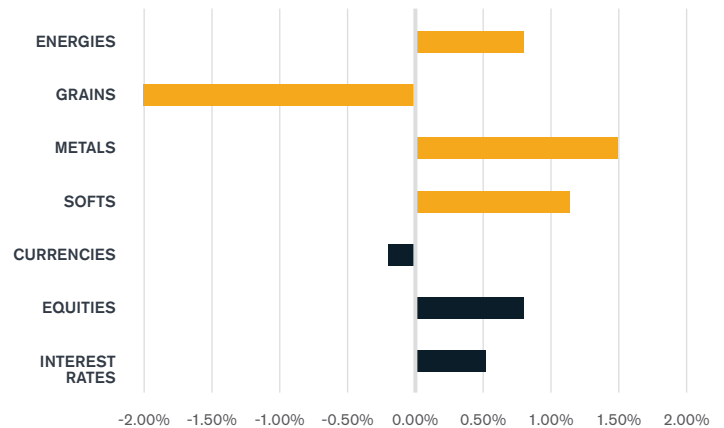
### GAINS

- Cotton: Gained over 15%.
- Natural Gas: Strong on the back of weather driven cooling demand.
- Zinc: Continuation of a long term trend started in January.
- Silver: Pressing higher after a June breakout.
- Short Term strategies performed very well during July.

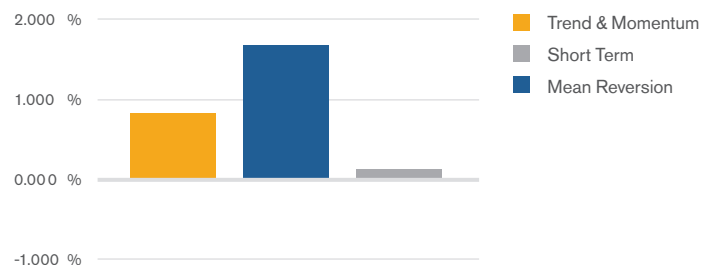
### LOSSES

- Soybeans and Soybean Meal: correction in trends had us trim exposures significantly.
- Sugar: Pullback of 6% while in a long term up trend. Holding.
- Swiss Franc: Short entry at month end that reversed and was exited quickly.
- Heating Oil: Was exited early in the month while off 6%. Fell 14% by month end.

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION



**Chart 3** STRATEGY (RETURN DRIVER) ATTRIBUTION



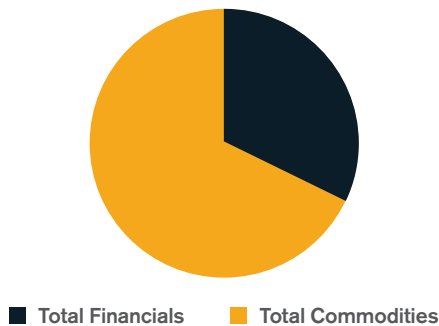
**EXPOSURE AND RISK ALLOCATION**

Portfolio risk shifted during the month with Financial markets gaining over 13% of the total risk budget of the portfolio over commodities (which fell by the same amount). The portfolio remains commodity tilted per Chart 4.

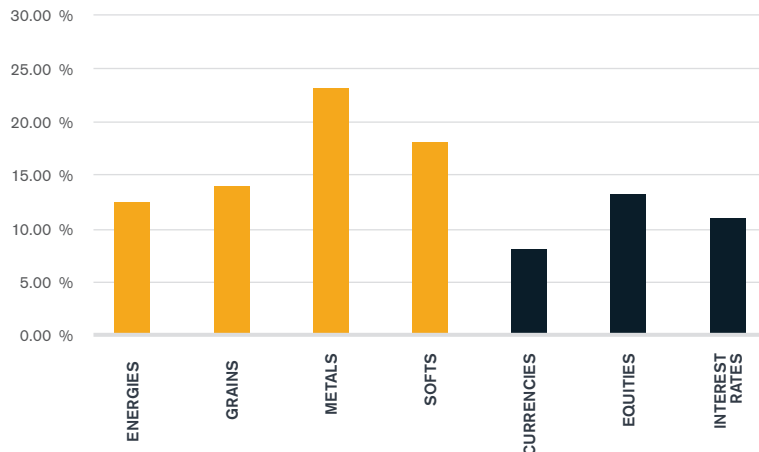
The largest change in financials came from an increase in Equity sector exposure on the back of a strong market and falling VIX. While the portfolio entered the month only long the commodity tilted Toronto TSX 60, we added exposures in Hang Seng, Nasdaq, S&P and short the VIX. Overall this exposure remains modest per Chart 5.

Reductions in Commodity risk came from weakness in Energies, Grains and Soft Commodities. This largely came from exiting positions in Heating Oil, Soybeans, and Rubber.

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE



**Chart 5** CURRENT SECTOR RISK



**CURRENT RISK BY SECTOR**

**ENERGIES 12.60%**

Largest Holdings	Position	% of Risk
Natural Gas	Long	5.61%
RBOB Gasoline	Long	4.02%
Heating Oil	Long	2.49%

**GRAINS 13.88%**

Largest Holdings	Position	% of Risk
Wheat	Short	6.09%
Corn	Short	5.39%
Canola	Short	1.31%

**METALS 23.16%**

Largest Holdings	Position	% of Risk
Silver	Long	7.18%
Zinc	Long	6.62%
Gold	Long	3.27%

**SOFTS 18.02%**

Largest Holdings	Position	% of Risk
Cotton	Long	10.58%
Coffee	Long	4.20%
Sugar #11	Long	3.24%

**CURRENCIES 7.83%**

Largest Holdings	Position	% of Risk
Japanese Yen	Long	4.29%
British Pound	Short	2.87%
Aussie Dollar	Long	0.25%

**EQUITIES 13.52%**

Largest Holdings	Position	% of Risk
NASDAQ 100 (USA)	Long	3.33%
S&P 500 (USA)	Long	3.15%
Hang Seng Mini	Long	2.92%

**RATES 10.98%**

Largest Holdings	Position	% of Risk
Long Gilt (UK) LIFFE	Long	3.91%
Treasury Bond/30yr (USA)	Long	3.72%
Treasury Note/10yr (USA)	Long	3.02%

\* Risk is expressed as the maximum expected loss in a position or sector divided by the total portfolio risk across all positions.

## STRATEGY DESCRIPTION

Auspice Diversified is our flagship strategy. It is a rules-based multi-strategy investment program designed to deliver superior, non-correlated returns at critical times. It represents the culmination of the ongoing research and experience of the Auspice Portfolio Management and Research teams.

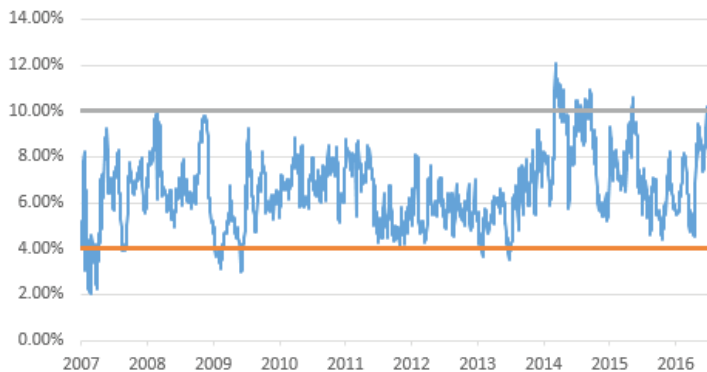
The strategy draws from all of Auspice's current research (the Auspice Building Blocks). The strategy is rooted in trend following but is our most active and evolving multi-strategy quantitative approach pulling together other complementary strategies and wrapping them in a rigorous risk and capital allocation model. The strategy is designed to be agile and resilient as we believe these traits are necessary in order to generate performance long term.

## THE MAIN POINTS OF DIFFERENTIATION INCLUDE:

- Higher allocation to commodities relative to our peers,
- Negative correlation to equity, no correlation to commodity,
- Low risk (margin to equity average 6.7%) makes it scalable, low round turns per million.
- Portfolio Management team with experience trading in volatile environments.
- Positive skew: Auspice Diversified has outperformed at critical times of crisis, recovery, and volatility expansion.

## FUND FACTS

**Chart 6** PORTFOLIO EXPOSURE (MARGIN TO EQUITY)



**Table 3** NAVS

NAV	Auspice Managed Futures LP*
Series 1	1254.3576
NAV	Auspice Diversified Trust
Class A	9.8085
Class F	10.1369
Class S	9.5693
Class H	11.0680
Class I	11.8654
Class X	11.5936

Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	3.54%	Avg Monthly Gain	2.82%
Annualized Std Dev	11.60%	Avg Monthly Loss	-2.17%
Largest Drawdown	-26.04%	Daily Std Dev	0.70%
Sharpe Ratio <sup>1</sup>	0.30	Daily VAR (sim w/99% conf)	-1.56%
MAR Index <sup>2</sup>	0.14	Round Turns per \$million	363
Sortino	0.74	Margin to Equity ratio	6.61
Upside/Downside Volatility <sup>3</sup>	2.84% / 1.28%	Average Hold Period (Days)	69
Correlation to S&P 500	-0.25%	% Profitable	36.12%
Correlation to TSX60	-0.14%	\$Win / \$Loss	1.76
Correlation to BCOM ER	0.05		

Program Details	
Structure	Unit Trust / LP / Mngd Account / Offshore
Mgmt Fee	0-2%
Incentive Fee	20% w/High-Water Mark
Liquidity	Monthly (no lockup)
Firm Assets	\$228M
Min. Investment	Accredited Investor / QEP
Unit Pricing	\$CAD or \$USD

1. Assumes Risk free rate of 0%. 2. MAR is the annualized return divided by the largest drawdown.  
 3. Standard deviation of positive (Upside) or negative (Downside) monthly returns over the risk free rate.

**FUND FACTS (CONT)**

**▶ MONTHLY PERFORMANCE TABLE\***

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
2016	-0.22%	3.12%	-4.93%	3.59%	-1.64%	0.56%	2.44%						<b>2.65%</b>
2015	4.66%	-1.93%	0.47%	-0.98%	-2.03%	-1.84%	-4.36%	-2.14%	0.26%	-2.74%	2.56%	0.66%	<b>-7.47%</b>
2014	-2.02%	1.62%	-1.84%	3.25%	-3.11%	2.65%	-0.43%	3.92%	8.56%	-0.78%	7.05%	4.19%	<b>24.76%</b>
2013	0.40%	-2.23%	0.26%	0.99%	-0.90%	0.66%	-1.54%	-1.33%	-4.07%	2.01%	0.04%	-0.36%	<b>-6.01%</b>
2012	2.41%	-1.11%	-1.19%	0.60%	1.72%	-6.29%	1.17%	-0.70%	-3.64%	-1.80%	2.38%	-0.81%	<b>-10.24%</b>
2011	1.39%	2.97%	-1.16%	4.09%	-1.31%	-1.62%	2.16%	-1.09%	-2.60%	-3.82%	1.07%	-3.44%	<b>-3.66%</b>
2010	-3.26%	0.45%	0.61%	0.95%	0.01%	0.62%	-1.02%	1.07%	1.82%	6.98%	-2.51%	6.68%	<b>12.53%</b>
2009	-0.61%	1.08%	-2.27%	-3.32%	-0.58%	0.15%	-3.23%	0.75%	1.44%	-2.31%	4.84%	-3.83%	<b>-7.93%</b>
2008	5.60%	14.59%	-1.72%	-1.58%	0.71%	2.86%	-5.61%	-1.99%	6.86%	10.80%	5.77%	2.73%	<b>44.30%</b>
2007	-1.43%	-1.76%	-2.42%	-0.79%	0.71%	-1.32%	-3.16%	-3.07%	5.87%	4.53%	-2.13%	2.29%	<b>-3.11%</b>

\* Returns represent the oldest series of Auspice Managed Futures LP, Series 1 (2% management and 20% performance fee).  
 See Important Disclaimers and Notes for additional details.

## IMPORTANT DISCLAIMERS AND NOTES

Futures trading is speculative and is not suitable for all customers. Past results is not necessarily indicative of future results. This document is for information purposes only and should not be construed as an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice. Auspice Capital Advisors Ltd. makes no representation or warranty relating to any information herein, which is derived from independent sources. No securities regulatory authority has expressed an opinion about the securities offered herein and it is an offence to claim otherwise.

## COMPARABLE INDICES

\*Returns for **Auspice Diversified or "ADP"** represent the performance of the Auspice Managed Futures LP Series 1. Performance is calculated net of all fees.

The **Barclay CTA Index** is a leading industry benchmark of representative performance of commodity trading advisors. There are currently 532 programs included in the calculation of the Barclay CTA Index for 2016. The Index is equally weighted and rebalanced at the beginning of each year. It is a non-investable index.

The **S&P/TSX 60 Index** is designed to represent leading companies in leading industries. Its 60 stocks make it ideal for coverage of companies with large market capitalizations and a cost-efficient way to achieve Canadian equity exposure. Price Return data is used (not including dividends).

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Price Return data is used (not including dividends).

The **(MSCI) World Index**, Morgan Stanley Capital International, is designed to measure equity market performance large and mid-cap equity performance across 23 developed markets countries, covering approximately 85% of the free float-adjusted market capitalization in each. This index offers a broad global equity benchmark, without emerging markets exposure.

The Bloomberg Commodity (Excess Return) Index (**BCOM ER**), is a broadly diversified index that allows investors to track 19 commodity futures through a single, simple measure.

**Excess Return (ER)** Indexes do not include collateral return.

The **SG CTA Index** provides the market with a reliable daily performance benchmark of major commodity trading advisors (CTAs). The SG CTA Index calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment.

## PERFORMANCE NOTES

The Equity benchmarks used in this material are intended to reflect the general equity market performance. They are shown to illustrate the non-correlated attributes versus other assets such as the Barclay CTA Index and the Auspice Diversified Program. Adding non-correlated assets within a portfolio has the potential to reduce portfolio volatility and drawdowns.

## QUALIFIED INVESTORS

For U.S. investors, any reference to the Auspice Diversified Strategy or Program, "ADP", is only available to Qualified Eligible Persons "QEP's" as defined by CFTC Regulation 4.7.

For Canadian investors, any reference to the Auspice Diversified Strategy or Program, "ADP", is only available to "Accredited Investors" as defined by CSA NI 45-106.

---

## INVEST WITH AUSPICE

Call us

**888 792 9291**

Visit us online to find out more

**[auspicecapital.com](http://auspicecapital.com)**

---

## AUSPICE Capital Advisors

SUITE 510 - 1000 7TH AVE SW  
CALGARY, ALBERTA CANADA T2P 5L5