# AUSPICE

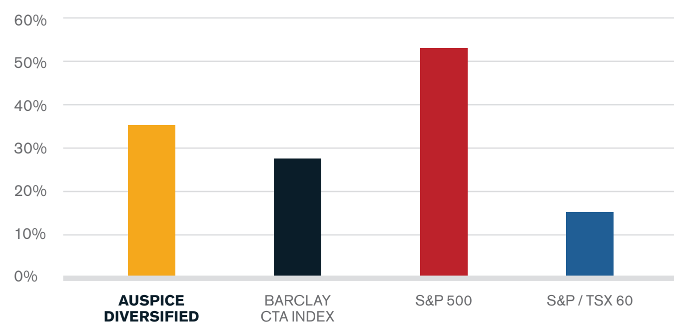
# DIVERSIFIED PROGRAM

## COMMENTARY + PORTFOLIO FACTS

## SEPTEMBER 2016

### CUMULATIVE PERFORMANCE

( SINCE JANUARY 2007* )




| | | | |
|---|---|---|---|
| Correlation | 0.76 | -0.24 | -0.14 |

*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**

altegris

Winner - 2014
Altegris CTA Challenge

MORNINGSTAR® Silver

Silver Medal
Best Opportunistic Hedge Fund - 2010


**AUSPICE** Capital Advisors

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

AUSPICE **DIVERSIFIED PROGRAM**

# COMMENTARY + PORTFOLIO FACTS

SEPTEMBER 2016

## SUMMARY

The Auspice Diversified Program was off 1.06% in September to be flat for the year. The Barclays CTA Index pulled back and estimated 1.67% (Table 1) while the SG CTA index lost 1.08% for reference. Performance is on par with peers and benchmarks in the short term and outperforms when considering the long term (3 and 9 year).

While there were a number of interesting events during the month: a much anticipated US FED meeting, a highly watched US candidate debate, and an OPEC meeting to discuss oil output – there was not a massive amount of trending market movement.

Global equity market benchmarks lacked clear conviction on the month and remained neutral to weaker for a second month in a row - e.g. S&P 500 and MSCI world were softer (-0.12% and -1.04%). Moreover, given the FED's lack of action on changing the overnight lending rate, interest rates did not move too far. The US dollar was lackluster on the "news" and the first Trump-Clinton debate did little to ignite the market one way or another.

However, other commodity tilted equity and currency markets followed the path of the commodity markets as a whole – slightly higher.

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

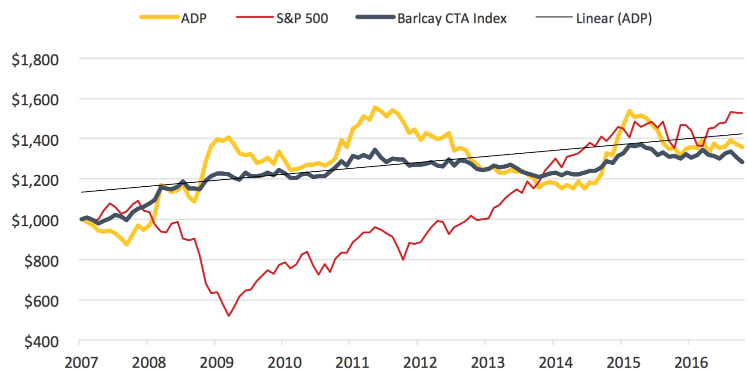



Table 1 **ABSOLUTE PERFORMANCE**

| | Auspice Diversified | Barclay CTA Index | S&P 500 | TSX 60 |
|---|---|---|---|---|
| 1 Month | **-1.06%** | -1.67% | -0.12% | 0.83% |
| 2016 YTD | **-0.02%** | -1.68% | 6.08% | 12.28% |
| 1 yr (Oct 15) | **0.35%** | -2.39% | 12.93% | 9.42% |
| 3 yr (Oct 13) | **17.34%** | 6.10% | 28.95% | 17.12% |
| 9 yr (Oct 07) | **46.73%** | 24.22% | 42.02% | 5.01% |
| Annualized (Jan 07) | **3.19%** | 2.61% | 4.45% | 1.49% |

## OUTLOOK

While the lack of trend and choppy volatility has been challenging for trend following and macro approaches in recent months, we believe the market may be setting up for opportunity. Although the VIX remains low (<15), we are witnessing increased short term volatility, specifically in commodities. While choppy at this time, we think there are catalysts that could create or amplify existing trends and also transfer to the financial markets.

As such, despite the holding pattern in rates, the equity markets and the US dollar, there seems ample reason to be excited about commodity volatility. Commodity tilted CTA/Managed Futures strategies may be well positioned to take advantage of this volatility along with short term strategies as contained within the Auspice Diversified Program. (See Chart 3)

Coupled with outperformance to the Barclay CTA Index in the critical times of 2008, 2010 and 2014 (Chart 1), the Auspice Diversified Program remains a potentially valuable addition to many portfolios already including CTA/Managed Futures. At 0.53 correlation to the SG CTA Index on a 1 year basis (daily returns), the combined performance and non-correlation to other CTAs is valuable.

AUSPICE

## ATTRIBUTIONS AND TRADES

September followed a similar summer pattern of general market consolidation and choppiness. While focused more in financials as markets appear to be awaiting FED action and election results over rhetoric, this made for a challenging long term trend following environment. While commodities generally moved higher, reversals in sectors like Grains challenged opportune trends in the Soft Commodities.

Gains came from 3 sectors with Softs and Energies leading the way complimented by Metals (See Chart 2). Losses were spread across the remaining sectors but led by Equities and Rates.

In Softs, gains were focused in Sugar which gained over 10% on the month. This was complimented by Cotton which gained over 3%.

In Energy, the storage withdrawals over the last month coupled with news from OPEC helped encourage the petroleum market higher. This benefited WTI and Brent Crudes as well as Heating Oil. Natural Gas ground higher, breaking $3.00 for the first time in over a year, before for falling off at month end.

**Return Drivers:** Short Term (non-trend) and Mean Reversion strategies produced another excellent positive result while trend following struggled. See Chart 3.

## POSITION HIGHLIGHTS

### GAINS

- Sugar: top performing portfolio position on strong rally.
- Zinc: Industrial metals performed well, up 2.6%.
- Japanese Yen: strongest of currencies, gained 1.9%.
- WTI Crude: led Energy gains, up 6.5%.

### LOSSES

- DJ Euro Stoxx: short lived strength had us quickly exit.
- UK Long Gilts: Exited on a long end of curve correction.
- Corn: Grains bounced while in long term down trend since June. Remain short.
- Swiss Franc: Entered and exited quickly on stop loss.

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION

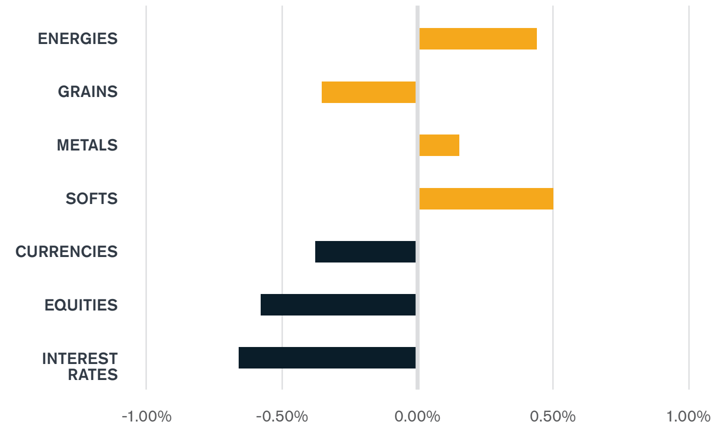
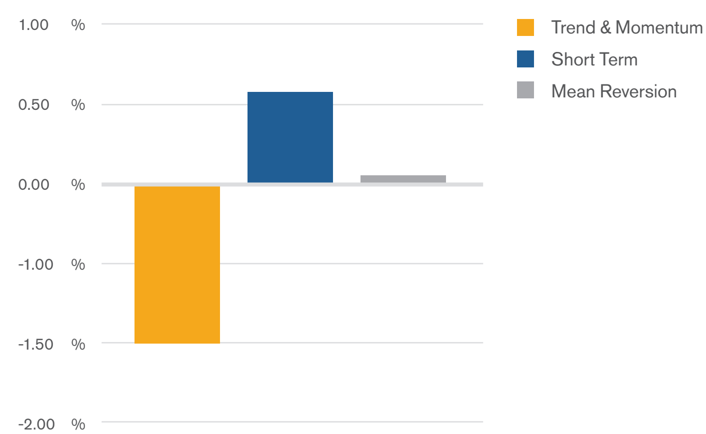



**Chart 3** STRATEGY (RETURN DRIVER) ATTRIBUTION



## EXPOSURE AND RISK ALLOCATION

Portfolio risk* shifted during the month with Commodity markets gaining 9% of the total risk budget of the portfolio over financials (which fell by the same amount). The portfolio is commodity tilted as can be seen in Chart 4.

The largest change came from an increase in Soft commodity sector risk as Sugar rallied and positions were held (See Chart 5). Additionally, short exposure was added in Grains via Soybeans contracts.

Reductions in risk came from Interest Rate futures where we exited a long term trade in UK Long Gilts. This position was very profitable (held since early June gaining 4.4%). Additional risk reduction from long positions in Metals and Equities (Palladium, S&P500, Toronto TSX S&P 60).

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE

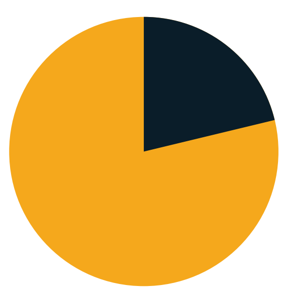
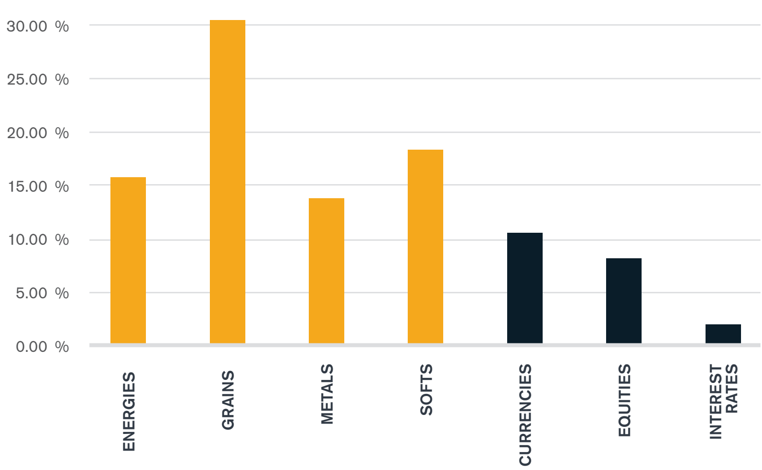



**Chart 5** CURRENT SECTOR RISK




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

## CURRENT RISK BY SECTOR

**ENERGIES** **15.59%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Natural Gas | Long | 7.04% |
| Heating Oil | Long | 6.12% |
| RBOB Gasoline | Short | 1.58% |

**GRAINS** **31.23%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Wheat | Short | 11.14% |
| Soybeans | Short | 8.35% |
| Corn | Short | 7.50% |

**METALS** **13.76%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Zinc | Long | 7.18% |
| Silver | Long | 3.21% |
| Gold | Long | 2.36% |

**SOFTS** **18.09%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Sugar #11 | Long | 14.77% |
| Cotton | Long | 2.01% |
| Coffee | Long | 1.31% |

**CURRENCIES** **10.78%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Japanese Yen | Long | 5.25% |
| Canadian Dollar | Short | 3.16% |
| British Pound | Short | 1.29% |

**EQUITIES** **8.52%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| NASDAQ 100 (USA) | Long | 4.00% |
| Hang Seng Mini | Long | 3.54% |
| VIX Volatility Index | Short | 0.98% |

**INTEREST RATES** **2.03%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Treasury Bond/30yr (USA) | Long | 0.95% |
| Treasury Note/10yr (USA) | Long | 0.68% |
| Treasury Note/5yr (USA) | Long | 0.40% |

AUSPICE

AUSPICE **DIVERSIFIED PROGRAM**

# COMMENTARY + PORTFOLIO FACTS

**SEPTEMBER 2016**

## 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)

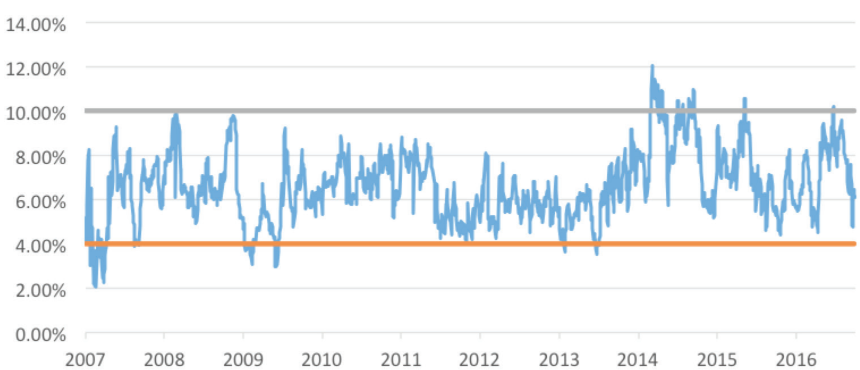



**Table 3** NAVS

| NAV | Auspice Managed Futures LP* |
|---|---|
| Series 1 | 1221.7545 |
| **NAV** | **Auspice Diversified Trust** |
| Class A | 9.5463 |
| Class F | 9.8833 |
| Class S | 9.3135 |
| Class H | 10.7911 |
| Class I | 11.5894 |
| Class X | 11.3038 |

| Program Statistics (from Jan 2007) | | Trade Statistics | |
|---|---|---|---|
| Annualized Return | 3.19% | Avg Monthly Gain | 2.74% |
| Annualized Std Dev | 11.53% | Avg Monthly Loss | -2.16% |
| Largest Drawdown | -26.04% | Daily Std Dev | 0.70% |
| Sharpe Ratio[1] | 0.28 | Daily VAR (sim w/99% conf) | -0.91% |
| MAR Index[2] | 0.12 | Round Turns per $million | 366 |
| Sortino | 0.75 | Margin to Equity ratio | 6.62 |
| Upside/Downside Volatility[3] | 2.83% / 1.30% | Average Hold Period (Days) | 68 |
| Correlation to S&P 500 | -0.24% | % Profitable | 36.85% |
| Correlation to TSX60 | -0.14% | $Win / $Loss | 1.73 |
| 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 | $226M |
| 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.

AUSPICE

## 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% | -1.55% | -1.06% | | | | **-0.02%** |
| **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% | **-7.47%** |
| **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% | **24.76%** |
| **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% | **-6.01%** |
| **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% | **-10.24%** |
| **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% | **-3.66%** |
| **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% | **12.53%** |
| **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% | **-7.93%** |
| **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% | **44.30%** |
| **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% | **-3.11%** |

* 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**

**AUSPICE** Capital Advisors

SUITE 510 - 1000 7TH AVE SW

CALGARY, ALBERTA CANADA T2P 5L5

AUSPICE