Auspice Managed Futures Index Commentary and Performance

Auspice Managed Futures Excess Return Index (AMFERI)

December 2015 Review

Market Review

2015 ended with a whimper and will be remembered as a year of watershed events:

- First down year in the stock market since 2008
- Oil and Gas at lows not seen for over a decade
- First move by the US Federal reserve to raise rates in 10 years
- China is now the largest importer of Crude Oil
- The US approved first release of oil in 40 years from its Strategic Petroleum Reserve (SPR)

This is just a sample - there were many other noteworthy developments (including international terrorism and Trump leading US election polls). While it is hard to say what it all means, it likely means more volatility, uncertainty and continued pressure on the markets. We appear to be in a time of high global unrest, high personal debt, coupled with concerns over the use of leverage being vocalized by regulators - all of which have made the markets nervous.

Index Review

The AMFERI had another strong month, gaining 2.26% in December. The commodity-tilted strategy significantly outperformed its peers (see Table 1) and benchmarks on the month at another important juncture. While there was some underperformance compared to the equity and financially-tilted CTA benchmarks year to date, the performance - specifically during times when equities pause and pull back like they did in December – stood out at the right time compared to other CTA/Managed Futures options.

Table 2 highlights that the long-term outperformance of AMFERI on both an absolute and risk-adjusted basis (versus both investable and non-investable CTA/managed futures indices) despite the challenging environment in recent years.

Table 3 illustrates outperformance to most benchmarks since the strategy has been published by the NYSE (as a third party index) in December 2010.

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Table 1: Month and 2015 Year-To-Date

2015	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Dec 2015	**2.26%**	-1.58*%	-0.72%	-1.36*%
2015 YTD	**-7.26%**	-0.69*%	-3.07%	0.01*%

Table 2: 8 Year Annualized Performance

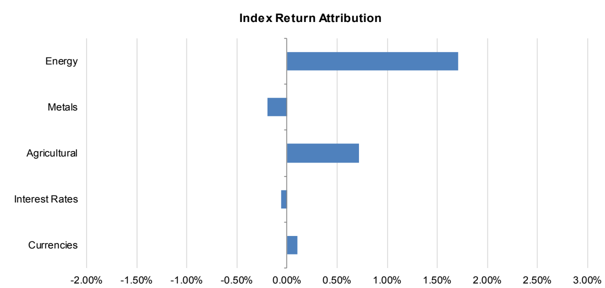
8 Year Annualized	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Annualized Return	**9.21%**	2.50%	-1.81%	3.07%
Annual Std. Dev.	**12.66%**	6.40%	8.18%	7.50%
Sharpe Ratio	**0.73**	0.39	-0.22	0.41
MAR Ratio	**0.54**	0.30	-0.09	0.26
Largest Drawdown	**17.17%**	8.34%	27.07%	11.78%

Table 3: Cumulative Return Since Inception

From Dec. 2010	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Cumulative Return	**19.22%**	9.37%	-6.30%	11.20%

As a single strategy investable CTA index, this strategy provides the benefits of traditional CTA through trend following and risk management along with the benefits of transparency and third party publishing, monitoring and benchmarking. The strategy now underlies ETFs, 40 Act mutual funds and managed accounts providing a low cost means of allocating to Managed Futures without sacrificing performance.

Chart 1



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Portfolio Recap

In December, performance was positive in 3 of the 5 index sub-sectors (as seen in Chart 1), with the bulk of the gains coming from short commodities. Energies led the sector performance, followed by Ags.

The top performing positions in the portfolio were gains from shorts in Heating Oil and WTI Crude Oil, followed by Corn and Soybeans alongside a long position in Sugar. The worst performing position was the short in Copper as this market moved higher on the month.

Commodity positions remain unchanged, with the strategy short 11 of 12 components (or 92%), a similar position to last fall when all commodity components were short.

The strategy made no changes to commodity or financial positions during the month.

Energy

The strategy remains short all components within the energy sector with weakness led by the petroleum side. Natural Gas started the month softer before bouncing higher in the latter half of the month. This sector was the top performer for the year.

Metals

Copper was an anomaly, moving higher as metals were stronger than most commodities. Within the sector, Precious metals were slightly softer, which didn't quite offset Industrial metals that were stronger on the back of Copper. The strategy remains short all components in the sector.

Agriculture

Within Ags, Grains were slightly softer during the month and the strategy remains short. On the Softs side, Sugar continues to move higher and remains the only long weight for the strategy. Cotton also moved up but remains short at this time. It was a strong month for this sector in both longs and shorts and from both the Grain and Softs sub-sectors.

Interest Rates

After the (widely expected) US FED move to raise rates mid-month, the reaction was muted. After selling off in November, and rebounding thereafter, futures again softened after the announcement (rates slightly higher). The moves were mostly inconsequential and we hold the same weightings: short in the US 30 Year Bond futures while long positions in the US 10 Year and 5 Year Note.

Currencies

Currencies ended the year quietly after having a positive attribution for the year (and the second most profitable). In December, gains from shorts in the British Pound and Canadian Dollar complemented the long Japanese Yen position more than offset the slightly stronger Euro and Aussie Dollars where the strategy remains short.

Outlook

Finding safe haven with assets was challenging in 2015 as traditional equities, fixed income and commodities were pressured while alternatives also struggled. Trends were generally short lived.

However, markets are operating at a volatility level that should bring opportunity to those agnostic and patient as to price direction in the long term. These are the times when a true non-correlated alternative with steadfast risk management forms a critical portfolio component.

Moreover, within alternatives, the strategies without high correlation to the traditional markets or high beta alternatives will add most portfolio value at a time when it is needed most.

To accomplish this, we revisit the elements required to navigate the expected volatility to come:

1. Include commodities as a strategic allocation
2. Be patient
3. Be agnostic to market direction
4. Underweight financials
5. Allow disciplined, experienced, rules-based managers to handle the tactical position decisions and focus on your strategic goals.

Synopsis of AMFERI Drawdown and Return Analysis.

Managed Futures is typically a difficult strategy to time because of the non-correlated performance that results from the widespread diversification of market sectors covered. One of the best ways to consider an entry point is through an understanding of drawdowns over time. Pullbacks occur in every strategy, however given transparency of the returns, it is intuitive to analyze the character of the pullbacks and subsequent gains with managed futures. These pullbacks generally represent an opportunity from which trends develop and extend. Furthermore, the time to make new gains is often quicker than the length of the pullback (peak to valley).

Please contact us at info@auspicecapital.com for the complete analysis.

Strategy and Index

The Auspice Managed Futures Index is an investable single strategy CTA. The index aims to capture upward and downward trends in the commodity and financial markets while carefully managing risk. The index uses a quantitative methodology to track either long or short weights in a diversified portfolio of 21 exchange traded futures which cover the energy, metal, agricultural, interest rate, and currency sectors. The index incorporates dynamic risk management and contract rolling methods. The index is available as either a total return index (includes a collateral return) or as an excess return index (no collateral return). Auspice is an innovative asset manager that specializes in applying formalized investment strategies across a broad range of commodity and financial markets. Auspice's portfolio managers are seasoned institutional commodity traders. Their experience, trading one of the most volatile asset classes, forms the backbone of their strategy for generating profits while preserving capital and dynamically managing risk.

About Auspice

Auspice Capital Advisors Ltd. is a registered Portfolio Manager / Investment Fund Manager / Exempt Market Dealer in Canada and a registered Commodity Trading Advisor (CTA) and National Futures Association (NFA) member in the US. Auspice's core expertise is managing risk and designing and executing systematic trading strategies.