AUSPICE

Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

August 2016 Review

Market Review

The global market benchmarks, both financial and commodity, were mixed on the month – some higher, some lower, nothing extraordinary. Despite "hawkish" comments from the FED indicating the possibility of raising rates before year end, the market did not appear to react overly favorably.

The US dollar did make gains on global currencies post the FED comments. This appears at the expense of already buoyant US equity markets which "sold the news". While the VIX firmed up slightly over the last week of the month, its level remains low (<15) after dropping throughout the month.

Equities were neutral with MSCI World and S&P falling 0.12% and 0.13% respectively.

While commodities were off overall, individual sectors and markets moved independently. After sharp sell-offs in Energy and Grains in July, Energies came back yet Metals and Grains suffered. Gold fell 3% to close the month.

We reiterate a cautionary tone: given the high levels of global equity markets and macro volatility, coupled with a number of significant unknowns, risk management and downside protection should lead any strategy, even those that are index based.

Index Review

Auspice Broad Commodity pulled back 1.75% in August. See Table 1.

After a small pull back in July, contrasting the weak performance from the long-only commodity index benchmarks, the index corrected further but still maintains a positive yearly result. Some benchmarks were up, some down, largely depending on the portfolio make-up and sector tilting unique to each index. Energy exposure did better than a more balanced exposure of commodities including Ags and Metals.

On a risk-adjusted basis and absolute basis, the ABCERI outperformance is significant. Table 2 illustrates that on a long term basis (9 year annualized) the ABCERI has outperformed its benchmarks and is the only positive return of the group through both up and down commodity cycles. Importantly, this highlights the strategy's ability to limit the downside and volatility significantly. Table 3 reveals the index's ability to protect capital better than its benchmarks over this prolonged period of commodity weakness by a significant margin since its publication by NYSE.

Of note, product linked to the index was awarded a 5 Star rating by Morningstar (on all time frames) this past month: link here: http://www.morningstar.com/funds/xnas/dxcix/quote.html

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Note: Please refer to "Important Disclaimers" regarding comparable indices used herein.

Table 1: Month and 2016 Year-To-Date

2016	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
1 Month	**-1.75%**	1.96%	-1.79%	-0.11%
2016 YTD	**5.52%**	1.29%	5.36%	-0.28%
Q4.15-Q2	**8.49%**	-8.57%	1.16%	-8.86%

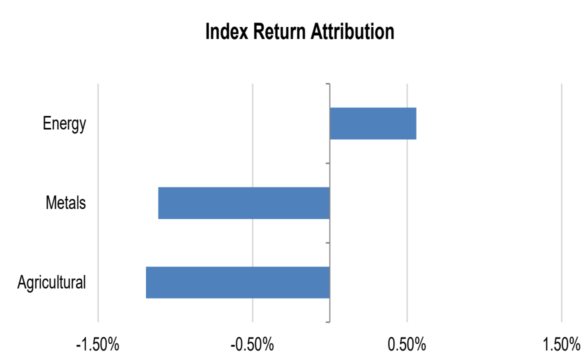
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**4.15%**	-11.02%	-7.41%	-6.64%
Annual Std. Dev.	**11.63%**	24.49%	18.74%	21.57%
Sharpe Ratio	**0.36**	-0.45	-0.40	-0.31
MAR Ratio	**0.12**	-0.14	-0.11	-0.09
Largest Drawdown	**33.67%**	81.12%	67.40%	71.23%

Table 3: Cumulative Return Since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Cumulative Return	**-4.84%**	-48.92%	-40.98%	-45.66%

Chart 1: Index Return Attribution



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Portfolio Recap:

August was a month that highlights that commodities cannot all be painted with one brush. Individual sector and markets behaved uniquely. While negative on the month, the broad commodity weakness was not universal. As such, a tactical approach to asset allocation within the sector is as important as is choosing the commodity asset class at the portfolio level.

While the index reduced exposure in specific markets such as Cotton, overall positions were maintained. The portfolio remains long 8 of 12 components (or 66%) and includes all 3 sectors – Energy, Metals, and Ags. The lack of change highlights that within long term trends, volatility is expected and the monthly result can be negative yet normal.

Performance was positive in the 1 sub-sector of the index. Gains were made in Energy while Ags and Metals were negative for an overall modest pullback on the month (see Chart 1).

Energy

After selling off much of June and July, Energies bottomed early in the month and were the portfolio bright spot. The petroleum sub-sector rallied most of the month before consolidating late in the month while Natural Gas sold off early only to recover late. Both Heating Oil and Crude remain long weights along with Natural Gas. No exposure to Gasoline at this time.

Metals

Both Industrial and Precious metals corrected in August after a strong first half of the year performance. The weakness was led by Silver and complimented by Gold. The strategy continues to be without a weight in Copper, which fell 7% during the month.

Agriculture

Ags are another sector that need to be looked at in a market specific way. After rallying early in the month, Grains sold off sharply - Wheat dropped over 10% from its high midmonth - yet the strategy was largely insulated from this having exited most of the exposure in June and July to only hold Soybeans. Within Soft Commodities, Sugar remained buoyant gaining over 5% but this was not enough to offset the sharp decent of Cotton falling over 10%. The net result was a negative sector performance with all existing positions held and long 3 of the 5 components that make up the overall sector.

Outlook

We remain optimistic about the commodity asset class despite the recent and modest summer correction. Long term, the worldwide demand remains robust. As such, while positive momentum that started in late 2015 still appears, it reminds you these are unique markets. Thus, opportunities across a sector as diverse as commodities need to be looked at individually with strict discipline or rules.

We believe the key aspect to participating in this valuable asset class remains a tactical, rules-based approach. This enables investors to be able to participate earlier in asset class trends with far less risk but as important, exit those market that cease to show upside potential.

Strategy and Index

The Auspice Broad Commodity Index aims to capture upward trends in the commodity markets while minimizing risk during downtrends. The index, which is considered to be a “third generation commodity index”, considers both risk and reward. The index uses a quantitative methodology to track either long or flat weights in a diversified portfolio of 12 commodity futures which cover the Energy, Metal, and Agricultural sectors.

The Broad Commodity index is available in Total and Excess Return versions. The cash return for the total return index will be calculated daily using the 3-month CDOR (Canadian Dealer Offered Rate). The CDOR is the average rate for Canadian bankers’ acceptances for specific terms-to-maturity (one year or less), determined daily from a survey on bid-side rates provided by the principal market-makers, including the major Canadian banks.

About Auspice

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

Important Disclaimers

The S&P Goldman Sachs Commodity Excess Return Index (**S&P GSCI ER**), is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

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.

The Deutsche Bank Liquid Commodity Optimum Yield Index (**DB LCI OY**), is an index composed of futures contracts on 14 of the most heavily traded and important physical commodities in the world.

The **SG CTA Index** (formerly Newedge CTA) 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.

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