AUSPICE

Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

December 2016 Review

Market Review

December was another month of historical market significance while perhaps not as surprising as the US election or Brexit. The US FED raised rates in a much anticipated move, adding it expected another three moves in 2017. Rates had been rising (futures falling) since peaking in early July and accelerating post the early November election. While expected, this appears to be another catalyst event as both financial and commodity markets continued to respond.

While equities captured the headlines for the month and the year, commodities also had a great year overall.

The S&P 500 gained 1.82% for a 9.50% gain in 2016 while the commodity resource tilted Canadian TSX/S&P60 continued to lead the developed world's equity performance gaining 1.32% in December for over 17% on the year.

Commodities continued to have the strongest year in many, with benchmarks such as the Bloomberg Commodity Index gaining 1.76% to rise over 11% on the year. The contribution was widespread in this diverse asset class with gains in Agricultural markets, Metals and Energies, the strongest sector ending 2016.

Index Review

Auspice Broad Commodity gained 1.59% in December to be up 8.55% year to date. On an absolute return basis, not considering risk, the performance is in line with long-only benchmarks. See Table 1.

On a risk-adjusted basis and long term absolute basis, the ABCERI outperformance is significant. Table 2 illustrates that on a long term basis (9 year annualized) the ABCERI has not only outperformed its benchmarks and is the only positive return of the group through both up and down commodity cycles, but the volatility is far lower. Importantly, this highlights the strategy's ability to limit the downside and volatility significantly while providing the same or better gains.

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	**1.59%**	4.79%	1.76%	3.93%
2016 YTD	**8.55%**	11.00%	11.44%	8.64%
1 Yr Rolling	**8.55%**	11.00%	11.44%	8.64%

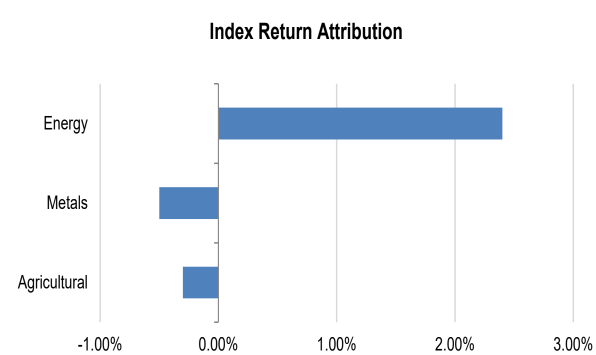
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**2.75%**	-12.02%	-7.98%	-8.04%
Annual Std. Dev.	**11.12%**	24.04%	18.47%	21.16%
Sharpe Ratio	**0.30**	-0.50	-0.43	-0.38
MAR Ratio	**0.08**	-0.15	-0.12	-0.11
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	**-2.10%**	-44.91%	-37.61%	-40.80%

Chart 1: Index Return Attribution



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Portfolio Recap:

There were only two changes to the portfolio during the month. The strategy shifted to long Natural Gas early in the month while it exited the long standing long Sugar position. The portfolio remains long 6 of 12 components (or 50%) and includes all 3 sectors – Energy, Metals, and Ags.

Performance was positive in 1 of the 3 sub-sectors of the index with Energies making strong gains (see Chart 1). However, the full year tells a different story with gains with gains in all 3 sub-sectors led by Ags, and followed by Metals and Energies. As such, the trend in commodities ends the year positive as it has been building since late 2015.

Energy

The Energy market stormed higher in December after the end of November OPEC "cuts" were announced and the long strategy benefitted.

While Natural Gas missed the gains last month, the shift to a long weight in early December was profitable as the market continued higher to close a strong year for this commodity.

The sector leaves the year with long weights in all components.

Metals

Metals were generally weaker on the month which was protected by the lack of exposure in Precious Metals having exited last month. The sole long exposure in Copper continues to be held although it corrected approximately 4.8% during the month. The sector was negative the month while having a profitable year overall.

Agriculture

The sector provided a slight negative contribution for the month while the largest gain for the year. The strong upwards trends in Grains that started the year were captured and followed by considerable weakness and we are without a weight in 4 of the five component markets.

Additionally, strong upwards trends in both Cotton and Sugar were held for much of the year and also large contributors. Sugar was exited in December after a gain of over 27% since late 2015 when the trade was initiated. The activity in this sub-sector illustrates the benefit of the strategy's agility to capture rising markets and protect capital once the trend shifts. Cotton remains the only long Ag exposure to end the year.

Outlook

The commodity sector leaves 2016 on a positive trajectory with strong results after many years of weakness. As such, we believe there are reasons to be optimistic about the commodity asset class especially within the context of a tactical strategy focused on momentum and risk management.

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 and volatility but also 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 Commodity 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.