Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

July 2016 Review

Market Review

The global markets appear to have absorbed the news and events in June including Brexit. While financial markets appear to have calmed down 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.

Equities were strong with MSCI World gaining 4.15% to get back into positive territory on the year while S&P lagged slightly gaining 3.56% and has remained positive.

Currencies have indeed calmed down – yet the devil is in the details. 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.

Commodities too have had important market granularity. 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 (per Table 1), yet strength was available to offset this if one is tactical. This is another reminder that specific commodities and sub-sectors are not a single asset.

As such, we urge caution in the markets given the high levels of global equity markets and volatility. There remain a number of significant unknowns (e.g. US elections) not to mention the "unknown unknowns" that keep popping up. With proper risk management we believe this is an opportunity.

Index Review

Auspice Broad Commodity pulled back 0.61% in July following a strong Q2 (+6.74%) and first half of 2016 (see Table 1). The modest pullback is in stark contrast to the performance from the long-only commodity index benchmarks. The sell-off in July has many of those benchmarks negative on the year despite the strong first half of 2016 highlighting the volatility and downside risk of a long-only approach in commodities.

Not only is the strategy outperforming on an absolute basis, the strategy exhibits better capital preservation in months where commodities fall as they did in July, with far lower volatility, and thus a fraction of the long term drawdown. 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.

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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	**-0.61%**	-9.59%	-5.13%	-6.84%
2016 YTD	**7.39%**	-0.81%	7.28%	-0.18%
Q4.15-Q2	**8.49%**	-8.57%	1.16%	-8.86%

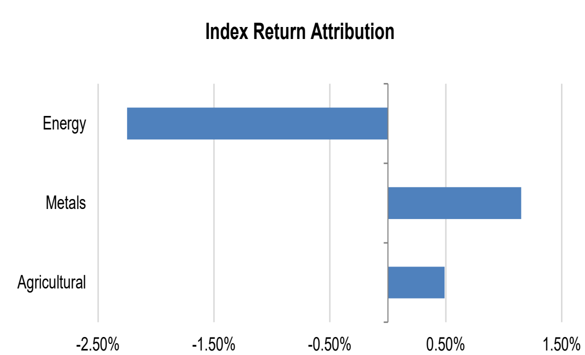
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**4.25%**	-11.66%	-7.64%	-6.91%
Annual Std. Dev.	**11.61%**	24.51%	18.78%	21.59%
Sharpe Ratio	**0.37**	-0.48	-0.41	-0.32
MAR Ratio	**0.13**	-0.14	-0.11	-0.10
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	**-3.14%**	-50.77%	-39.91%	-45.60%

Chart 1: Index Return Attribution



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Portfolio Recap:

While the broad commodity weakness was not all inclusive during the month, it was significant in certain sectors. As a result, the index reduced from the long exposure to some degree. This is a tactical shift due to the actual weakness experienced in specific markets.

The index reduced exposure in Energy and Grains, exiting the weakest within each sector. Gasoline and Corn shifted to flat while remaining long the bulk the respective sectors. With the reduction, the overall portfolio is long 8 of 12 components (or 66%) and includes all 3 sectors – Energy, Metals, and Grains.

Performance was positive in the 2 sub-sectors of the index. Gains were made in Metals and Ags while Energies were negative for an overall small pullback on the month (see Chart 1).

Energy

The petroleum sub-sector of energy was sharply weaker while Natural Gas held on to its recent gains. Both Heating Oil and Crude remain long weights while the strategy exited Gasoline. Natural Gas remains a recent bright spot. While it did not make new highs, correcting slightly to start the month, it closed strong on the back of weather driven cooling demand.

Metals

Metals led the index performance with gains from existing weights in both Gold and Silver, adding to a strong first half performance. Both Precious and Industrial metals again moved higher during July yet the strategy continues to be without a weight in Copper which is the least buoyant within the sector.

Agriculture

Ags gained on the back of Soft Commodities over Grains. After being added in June, Cotton gained over 15% in July leading the sector to a positive result. Sugar was off slightly during the month but largely preserved recent gains and remains long. Grains remain weak across the sector and the strategy shifted out of Corn to only hold Soybeans. The index remains long 3 of the 5 Ag components.

Outlook

While commodities corrected in July after a strong first half, there appears to be ample reason to remain encouraged about the asset class.

Starting in late 2015, we have experienced positive momentum across most commodity sectors in the long term. While Energies and Grains have corrected recently, many trends remain positive including within Soft Commodities, Metals and Natural Gas.

Given the list of unknowns for the remainder of 2016 is long, and volatility is significant, we believe the key aspect to participating in this valuable asset class remains a tactical approach. This enables investors to be able to participate earlier in asset class trends with far less risk.

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.