Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

June 2016 Review

Market Review

As we entered June there were a number of unknowns including the US Fed meeting, OPEC, and Brexit. While the first two appeared to have had little effect, Brexit brought in significant immediate volatility in the global marketplace. Yet while volatility is showing up in both commodities and financial markets, it appears the prior trajectories and trends remain intact in general despite the unknowns.

Equities ended mixed with MSCI World off 1.28% to be negative year to date while the S&P was near flat on the month and held onto a gain for the year (+2.69%).

Currencies were volatile. Prior to the Brexit decision, the US Dollar Index fell over 3% only to gain 3.4% after the vote.

Within commodities, the strong first half generally slowed as overall commodity gains were offset with weaknesses in specific markets including Grains. S&P GSCI was flat for the month despite its first positive quarter since Q2 2015. Tactical approaches are working well (versus long only) and given the movements within sub-sectors remain unique. As an example Wheat fell sharply while Soybeans gained, This is another reminder that commodities and sub-sectors are not a single asset.

Overall, with a third quarter of gains for the ABCERI index strategy, we note the apparent shift in momentum for the asset class. The strategy continued to add exposure during the month. (see Portfolio Recap).

Index Review

Auspice Broad Commodity gained 2.64% in June for a strong quarter (+6.74%) and first half of 2016 (see Table 1). With the gain, this strings three positive quarters eclipsing the performance from the long-only Commodity index benchmarks, most of which were negative in Q1 and Q4 2015. Including Q4 2015, the ABCERI index has gained 8.49% while GSCI remains off 8.57%. While not as strong as a couple of the long only benchmarks in the first half, the strategy is outperforming most benchmarks with better capital preservation in months where commodities fell, far lower volatility, and a fraction of the long term drawdown.

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.

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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	**2.64%**	0.06%	4.11%	0.54%
2016 YTD	**8.06%**	9.71%	13.09%	7.16%
Q4-Q2	**8.49%**	-8.57%	1.16%	-8.86%

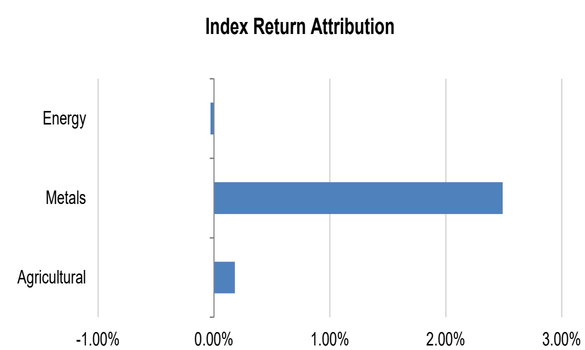
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**4.53%**	-10.17%	-6.93%	-6.00%
Annual Std. Dev.	**11.62%**	24.41%	18.72%	21.49%
Sharpe Ratio	**0.39**	-0.427	-0.39	-0.28
MAR Ratio	**0.13**	-0.13	-0.10	-0.08
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	**-2.55%**	-45.55%	-36.66%	-41.61%

Chart 1: Index Return Attribution



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Portfolio Recap:

The Broad Commodity strategy continued to shift weights towards commodities during the month but also tactically reducing weak markets.

The index shifted to a long weight in Natural Gas to hold all of the 4 energy component basket long. The index also added Cotton while exiting Wheat in the Ag sub-sector. This expands the overall portfolio to 10 of 12 components (or 83%) 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 flat (see Chart 1).

Energy

The petroleum sub-sector of energy was little changed on the month – Crude a little stronger, Gasoline a little softer. The markets appeared to digest the month's news with little response. However, natural gas, largely more domestically driven, was another story moving sharply higher, gaining approximately 25%, As a result, the index shifted to long a weight. This is the first time this entire sector has been long since 2014.

Metals

Metals led the index performance with gains from existing weights in Gold and Silver. Both Precious and Industrial metals moved higher on the month while the strategy continues to be without a weight in Industrial metals (Copper).

Agriculture

Ags had a small overall gain as markets moved sharply in both directions and within the sub-sector. Soybeans were stronger while Wheat and Corn fell. As such, the index exited the long Wheat position as it softened 7% on the month. On the Soft Commodity side of Ags, Sugar exploded higher gaining 15.7% while Cotton also moved higher and the index shifted to long weight. The index remains long 4 of the 5 components that make up the Ag sector with the two offsetting changes.

Outlook

Despite a complicated and volatile month, commodities appear to hold opportunity. While the extent and length of the opportunity is always hard to gauge, by being tactical we are able to participate earlier with far less risk.

While most long only commodities indexes did not participate, opportunities in commodities started last fall (as highlighted in Table 1). By adding only those markets with momentum higher, the ABCERI outperformed and gained at the same time. This continued in Q1 and Q2 of 2016.

The tactical nature of the strategy allows it to generate and adjust selective exposures, entering or exiting (to hold cash) based on pervasive trends and risk of specific markets within commodity sub-sectors. This provides a more disciplined way to be exposed to the commodities asset class in the long term.

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.

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