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Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

November 2016 Review

Market Review

While the months and weeks leading to the US election generally caused choppy and mostly weaker behavior, the moves post have been generally described as surprising. In addition to the outcome of the election being something most of us will never forget (regardless of political views), the benefit of the event can surely be described as a catalyst.

The days leading into the election were weak in global equity market benchmarks, markets reversed and headed higher post with financial volatility leading the market. The S&P 500 and MSCI World gained +3.42% and +1.25% respectively.

Interest rate futures, particularly US rates, fell sharply as rate increases gather momentum. For example, US 10 Year notes fell over 3.50%.

Within currencies, the US dollar has risen farther and faster than recent memory (the US Dollar Index is at 13 year highs). Global currencies weakened wholesale vis-à-vis the Dollar.

Commodities have been positive yet slightly more contained and mixed overall. The benchmark indices are positive but unique depending on portfolio makeup per Table 1. Weakness in some Soft Commodities, Grains and Precious Metals was eclipsed by Industrial metals and Energy. Commodities as a whole continue to outperform most asset classes (e.g. MSCI World +2.96%) for the year and is showing opportune volatility continuing to develop with markets such as Industrial Metals leading the way.

Index Review

Auspice Broad Commodity gained 0.49% in November to be up 6.84% year to date. On a rolling 1 year basis, the performance stands out at 7.15%. See Table 1.

The performance year to date and on a rolling 1 year basis highlights an important characteristic of the strategy. Despite being a tactical approach, switching from cash to long positions, the performance has not lagged the long only benchmarks. One might think that as commodities bottom, and start trending higher, the timing of the tactical approach may lag. However, the performance highlights the ability to capture upward price trends tactically from only commodities that are making sustained moves higher, while preserving capital on those commodities that are languishing is a better approach.

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	**0.49%**	1.76%	2.14%	8.26%
2016 YTD	**6.84%**	5.93%	10.43%	8.79%
1 Yr Rolling	**7.15%**	-3.24%	7.00%	0.47%

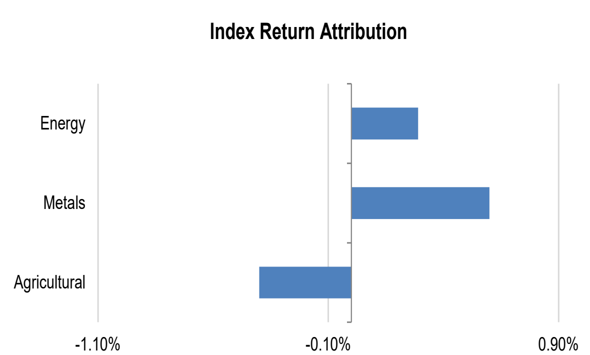
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**3.28%**	-11.95%	-7.63%	-7.41%
Annual Std. Dev.	**11.30%**	24.04%	18.54%	21.45%
Sharpe Ratio	**0.29**	-0.50	-0.41	-0.35
MAR Ratio	**0.10**	-0.15	-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	**-3.64%**	-47.43%	-38.17%	-40.72%

Chart 1: Index Return Attribution



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Portfolio Recap:

There were a number of changes to the commodity positions during the month. Pre-election, the strategy shifted to flat Natural Gas. Post-election, the strategy quickly changed course in both Precious (to flat) and Industrial Metals (to long). The slightly more choppy characteristic of the commodity sector had the portfolio drop one market to be long 6 of 12 components (or 50%) and includes all 3 sectors – Energy, Metals, and Ags. The trend in commodities remains positive overall.

Performance was positive in 2 of the 3 sub-sectors of the index with Metals the top performer followed by Energy (see Chart 1).

Energy

After correcting in October, the petroleum side of the energy market found a base and started to move higher post-election. The strategy shifted to long Gasoline early in the month. As the OPEC rhetoric picked up, the market found its legs and ultimately moved sharply higher on the last day of the month with the announcement of "cuts" to production levels by OPEC member nations.

Natural Gas was a challenge as early month weakness shifted the trend and exposure to flat. However, post-election, cold weather forecasts emerged and gas reacted sharply to the upside. Gas remains on the sidelines without an exposure at this time.

Metals

Metals sub-sectors diverged greatly during the month with Precious Metals weakening substantially while Industrial Metals rallied. As such, the strategy shifted in both to be flat Gold and Silver while taking a long exposure in Copper. The sector was profitable on this change which preserved capital in Precious Metals and allowed the Copper gain to buoy the sector and portfolio. Copper rallied over 13% post-election. This illustrates the agility of the strategy and the benefit of the long-flat approach employed.

Agriculture

Ags were a slight negative contributor in November. While Grains were generally weaker and the strategy is flat all components, Soybeans strengthened. On the long side, Cotton continued to move higher and added value yet was eclipsed by Sugar correcting. This market has been a very profitable long weight since the fall of 2015 and is close to trend reversal without new upside momentum.

Outlook

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. The market appears to agree and be more confident given US President-elect Trump's promises for significant infrastructure spending. 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 just as important, exit those market that cease to show upside potential. While this means that at times some short term uptrends will be missed, historically and statistically this has provided better risk adjusted result for investors looking for commodity exposure.

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.