AUSPICE

Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

October 2016 Review

Market Review

While an exciting month from a dramatic entertainment perspective as three US presidential (two presidential and one VP) debates grabbed the world's attention, the markets were choppy at best. Perhaps this should be no surprise in front of the election on November 8th. Even OPEC rhetoric did little, as the cartel struggles to remain relevant while each member speaks a different tone when asked about cuts.

Global equity market benchmarks were generally lower on the month and are now weaker for a third month in a row. The S&P 500 and MSCI World were -1.94% and -0.63% respectively.

Interest rate futures were also softer given additional comments from US FED members reinforcing a hawkish tone and possible rate increases for December.

However, the US dollar was stronger vis-à-vis currencies, gaining over 3% and thus making commodities more expensive. The sustainability of this strength will be a big question given the election results.

As such, commodity benchmarks were weaker per Table 1. It was challenging to find upward momentum in this sector which was led by weakness in Metals and Petroleum based energies. Despite the month's weakness, commodities are outperforming most asset classes for the year with the Bloomberg Commodity Index (BCOM ER) up over 8.00% for example.

Index Review

Auspice Broad Commodity softened 1.15% in October to remain up 6.33% year to date. On a rolling 1 year basis, the performance stands out significantly at 6.77% whereas the typical benchmarks are negative. 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	**-1.15%**	-0.93%	-0.52%	-3.55%
2016 YTD	**6.33%**	4.09%	8.12%	0.49%
1 Yr Rolling	**6.77%**	-13.45%	-2.85%	-14.32%

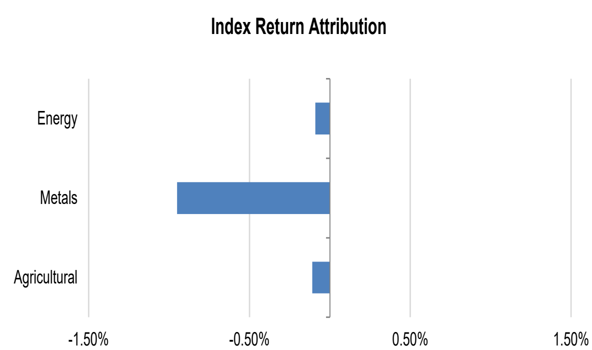
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**2.95%**	-12.52%	-8.21%	-8.23%
Annual Std. Dev.	**11.34%**	24.05%	18.55%	21.25%
Sharpe Ratio	**0.26**	-0.52	-0.44	-0.39
MAR Ratio	**0.09**	-0.15	-0.12	-0.12
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	**-4.11%**	-48.34%	-39.47%	-45.24%

Chart 1: Index Return Attribution



The performance of Auspice Broad Commodity Index prior to 9/30/2010 is simulated and hypothetical as published by the NYSE. All performance data for all indices assumes the reinvestment of all distributions. To the extent information for the index for the period prior to its initial calculation date is made available, any such information will be simulated (i.e., calculations of how the index might have performed during that time period if the index had existed). Any comparisons, assertions and conclusions regarding the performance of the index during the time period prior to the initial calculation date will be based on back-testing. These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under-or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown. The index does not have commissions, management / incentive fees, or operating expenses.

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Portfolio Recap:

There were no changes to the positions during the month. Despite the recent weakness, the general long term trends established remain intact. The portfolio is remains long 7 of 12 components (or 58%) and includes all 3 sectors – Energy, Metals, and Ags.

Performance was negative in all 3 sub-sectors of the index but dominated by Metals (see Chart 1).

Energy

Despite the North American storage withdrawls over the last 6 weeks and a stronger start to the month, the realization that OPEC rhetoric regarding actual cuts was unlikely to be ratified or implemented was a catalyst for a petroleum market correction. Given oil has been stronger since late January, this is perhaps a healthy correction given the long term upward bias. Small losses in Heating Oil and WTI Crude Oil were mostly offset by Natural Gas which was stronger in the back part of the curve where the strategy holds exposure. Natural Gas was the most profitable portfolio position for the month.

Metals

Precious metals led the sector weakness as Gold and Silver fell sharply. Silver dropped over 6% while Gold was 3%. Industrial metals sold off before rallying back at month end. The strategy continues to be without a weight in Copper which remains lower on a year over year basis.

Agriculture

Grains were the strongest of the commodities after selling off since early June but finding a base in the last month. However, the index remains without a Grain exposure at this time. Within Soft Commodities, Sugar corrected yet the strategy continues to hold this long term very profitable position. Cotton was choppy, but the long exposure did provide value to the portfolio.

Outlook

To reiterate: 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. Whether it be demand driven by central bank stimulus in Japan or China, or US candidate promises for significant infrastructure spending, the outlook is positive given the modest interest rate pressures.

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 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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