AUSPICE

Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

September 2016 Review

Market Review

While there were a number of interesting events during the month: a much anticipated US FED meeting, a highly watched US candidate debate, and an OPEC meeting to discuss output – there was not a massive amount of market movement.

Global equity market benchmarks lacked clear conviction on the month and remained neutral to weaker for a second month in a row. Moreover, given the FED's lack of action on changing the overnight lending rate, interest rates didn't move too far despite the hawkish tone for December.

However, other commodity tilted equity and currency markets followed the path of the commodity markets as a whole – slightly higher. While this wasn't exclusive, in certain places it was notable. For example, while both the S&P 500 and MSCI World were off slightly (-0.12% and -1.04%), the commodity sensitive Toronto TSX60 and Hong Kong Hang Seng were both stronger (+0.84% and an estimated +1.69%).

The US dollar was lackluster on the FED "news" and the Trump-Clinton debate did little to ignite the market one way or another.

The most excitement came from the OPEC cartel's meeting in Algiers. True to form, they made some noise about production cuts, yet the reality and adherence may be different for this PR machine. Regardless, the market popped higher leading Energies to a solid month complimented by Soft Commodities and Industrial Metals while Grains remained challenging.

As such, despite the seeming holding pattern in rates, the equity markets and the US dollar, there seems ample reason to be excited about commodities and the non-correlated value that can be so accretive to a portfolio.

Index Review

Auspice Broad Commodity gained 1.94% in September to be up 7.56% year to date. On a rolling 1 year basis, the performance also stands out significantly. See Table 1.

After a couple months of modest pullback during the summer, the index added value. While benchmark long-only indexes pulled back much more sharply recently, the market was more universally positive and thus being long only had a benefit. While not completely invested in the portfolio options monitored by the index, it did participate in gains despite remaining on the sidelines in markets that have showed recent pervasive weakness coming into the month.

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	**1.94%**	4.11%	3.10%	4.48%
2016 YTD	**7.56%**	5.30%	8.63%	4.19%
1 Yr Rolling	**8.00%**	-12.29%	-2.78%	-11.38%

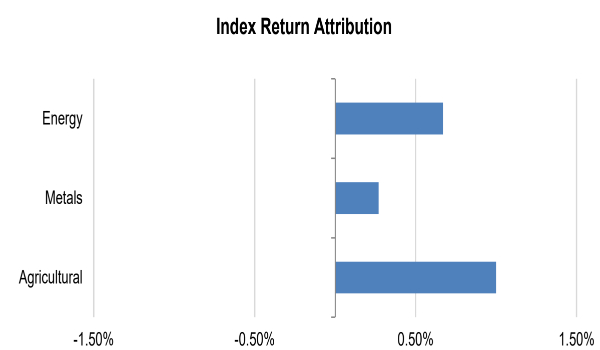
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**3.54%**	-11.55%	-7.85%	-7.02%
Annual Std. Dev.	**11.40%**	24.29%	18.58%	21.43%
Sharpe Ratio	**0.31**	-0.48	-0.42	-0.33
MAR Ratio	**0.10**	-0.14	-0.12	-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	**-2.99%**	-47.76%	-39.15%	-43.23%

Chart 1: Index Return Attribution



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Portfolio Recap:

While not long all commodities available to the strategy, those markets and sectors held generally made gains to capture the stronger commodity sector.

Positions that started the month were generally maintained with the exception of exiting one grain market near month end. The portfolio is now long 7 of 12 components (or 58%) and includes all 3 sectors – Energy, Metals, and Ags. While the strategy made gains, it holds only 58% of components illustrating that the tactical approach works well. Investing in those markets showing upward persistence and exiting those that do not, despite the risk of missing short-term gains, provides a better risk reward profile long term.

Performance was positive in all 3 sub-sectors of the index. Gains were made led by Ags and complimented by Energies and Metals (see Chart 1).

Energy

While the Energy market bounced around awaiting direction from OPEC and weekly storage results to start the month, the storage withdrawls over the last month coupled with news from OPEC helped the market higher. The petroleum sub-sector rallied, led by Gasoline, which was the weakest of the markets over the summer and remains without an exposure. Gains were made in Heating Oil and WTI Crude Oil. Natural Gas ground higher, breaking $3.00 for the first time in over a year, before falling off at month end.

Metals

Industrial metals led the sector higher yet it is Precious metals that contributed for the Auspice index. Small gains in Gold and Silver provided the gains while a bounce in Copper was missed. The strategy continues to be without a weight in Copper which remains lower on a year over year basis.

Agriculture

Ags remain bifurcated by Soft Commodities and Grains. After selling off sharply since early June, some Grains managed to find a base and bounce – specifically Wheat and Corn. However, the remaining long weight in Soybeans continued to falter and the index exited for a small gain to be without a Grain exposure at this time. Within Soft Commodities, Sugar provided the largest sector and portfolio gain followed by Cotton. Sugar gained 10.9% while Cotton added 3.8%.

Outlook

We believe there are reasons to be optimistic about the commodity asset class especially within the context of a tactical strategy. 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.