Auspice Managed Futures Index Commentary and Performance

Auspice Managed Futures Excess Return Index (AMFERI)

September 2016 Review

Market Review

Global equity market benchmarks lacked clear conviction on the month and remained neutral to weaker for a second month in a row. The S&P 500 and MSCI World were off -0.12% and -1.04%. Moreover, given the FED's lack of action on changing the overnight lending rate, interest rates did not move too far.

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

However, commodities were generally stronger. As such, commodity tilted equity and currency markets followed the path slightly higher. While this wasn't exclusive, in certain places it was notable. The commodity sensitive Toronto TSX60 and Hong Kong Hang Seng were both stronger (+0.84% and an estimated +1.69%). Moreover, often overlooked Soft Commodities rallied, Sugar up over 10%, Cotton gained 3.8% while Energies ignited and Gasoline rallied.

As such, despite the holding pattern in rates, the equity markets and the US dollar, there seems ample reason to be excited about commodity volatility. Commodity tilted CTA/Managed Futures strategies may be well positioned to take advantage of this volatility despite the choppy activity of late.

Index Review

The AMFERI gained 0.31% in September closing Q3 on a positive note after a flat summer. The monthly result outperformed most CTA benchmarks and peers on the month and the year to date remains outperforming at 2.98%. On a rolling 1 year basis, the performance stands out. See Table 1.

Table 2 highlights that the long-term outperformance of AMFERI on both an absolute and risk-adjusted basis (versus both investable and non-investable CTA/managed futures indices) since the financial crisis started in 2008.

Table 3 illustrates the cumulative outperformance to benchmarks since the strategy has been published by the NYSE (as a third party index) in December 2010.

Of note, the AMFERI strategy was named the Best Investable CTA Index by CTA Intelligence Magazine at the US Awards event in New York February 25th.

Note: Please refer to "Important Disclaimers" regarding comparable indices used herein.

Table 1: Month and 2016 Year-To-Date

2016	AMFERI	BTOP 50	S&P DTI ER	SG CTA
1 Month	**0.31%**	-1.40%	1.53%	-0.77%
2016 YTD	**2.98%**	-2.16%	-0.26%	1.38%
1 Yr Rolling	**9.33%**	-1.41%	0.71%	1.44%

Table 2: Long Term Performance

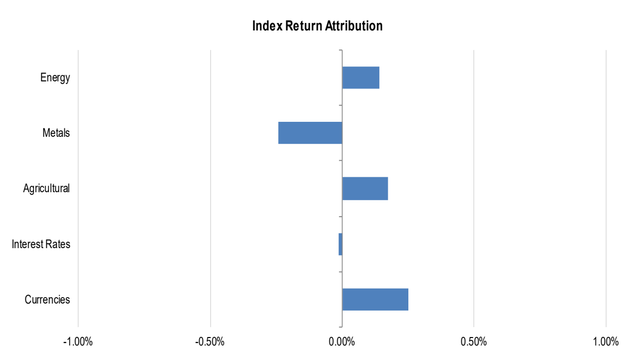
9 Year Annualized	AMFERI	BTOP50	S&P DTI ER	SG CTA
Annualized Return	**9.50%**	2.36%	-1.01%	3.28%
Annual Std. Dev.	**12.13%**	6.46%	8.06%	7.74%
Sharpe Ratio	**0.78**	0.37	-0.13	0.42
MAR Ratio	**0.55**	0.28	-0.04	0.28
Largest Drawdown	**17.17%**	8.34%	27.07%	11.78%

Table 3: Cumulative Return Since Inception

From Dec. 2010	AMFERI	BTOP50	S&P DTI ER	SG CTA
Cumulative Return	**22.77%**	7.50%	-6.55%	12.75%

As a single strategy investable CTA index, this strategy provides the benefits of traditional CTA through trend following and risk management along with the benefits of transparency and third party publishing, monitoring and benchmarking. The strategy now underlies ETFs, 40 Act mutual funds and managed accounts providing a low cost means of allocating to Managed Futures without sacrificing performance.

Chart 1: Index Return Attribution



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Portfolio Recap

Performance was positive in 3 of the 5 index sub-sectors. Currencies and Ags led the attribution while Energy was also a positive contributor. Given most of the commodity market was up, the gains largely came from long commodity weights. The only shorts adding value this month were in Financials, specifically Currencies. (see Chart 1)

The top performing positions in the portfolio were gains from long Sugar and Cotton, while WTI Crude and Heating Oil kept the Energy sector positive. The worst performing positions were all shorts - Copper, Corn and Gasoline all of which bounced from recent down trends still held.

The portfolio dropped one market to remain long 7 of 12 components (or 58%) and includes all 3 sectors – Energy, Metals, and Ags. Despite holding only 58% long, the gains continue to come from the long side highlighting a more positive commodity trend overall.

In the Financial markets, Interest Rates remain without a position change, while the strategy shifted to short Canadian dollar late in the month.

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 encourage the market higher. The petroleum sub-sector rallied, led by Gasoline, which was the weakest of the markets over the summer. As such the index remains short Gasoline exposure but made gains in Heating Oil and WTI Crude Oil which offset this loss. Notably, Natural Gas ground higher, breaking $3.00 for the first time in over a year, before falling off at month end.

Metals

While Industrial metals led this commodity sector higher, the strategy remains short Copper which eclipsed the gain made from Precious metals. Gains made in Gold and Silver were solid and remain positive for the year. While Copper rallied, the market remains down on a year over year basis.

Agriculture

Ags stellar performance was led by Soft Commodities. Sugar provided the largest sector and portfolio gain followed by Cotton. Sugar gained 10.9% while Cotton added 3.8%.

After selling off sharply since early June, some Grains managed to find a base and bounce – specifically Wheat and Corn where the strategy is short. Moreover, the remaining long weight in Soybeans continued to falter and the index shifted to be short all Grain markets at this time.

Interest Rates

Long US Bond futures softened while the short end of the curve was a little stronger implying rising rates longer term yet a tempered short term aligned with US FED rhetoric witnessed at the September meeting. Small gain in the sector from short end of the curve.

Currencies

Currencies made a solid contribution from both long and short exposures, While the USD was sideways, the British Pound remained weak and the strategy remains short. Gains made in stronger Aussie Dollar and Japanese Yen while the Canadian dollar was under pressure despite stronger commodities - and thus shifted to a short weight.

Outlook

We believe this is an ideal time to hold and add to non-correlated alternatives such as CTA/Managed Futures given the high levels of global equity markets and macro volatility in addition to significant unknowns.

Strategy and Index

The Auspice Managed Futures Index is an investable single strategy CTA. The index aims to capture upward and downward trends in the commodity and financial markets while carefully managing risk. The index uses a quantitative methodology to track either long or short weights in a diversified portfolio of 21 exchange traded futures which cover the energy, metal, agricultural, interest rate, and currency sectors. The index incorporates dynamic risk management and contract rolling methods. The index is available as either a total return index (includes a collateral return) or as an excess return index (no collateral return). Auspice is an innovative asset manager that specializes in applying formalized investment strategies across a broad range of commodity and financial markets. Auspice's portfolio managers are seasoned institutional commodity traders. Their experience, trading one of the most volatile asset classes, forms the backbone of their strategy for generating profits while preserving capital and dynamically managing risk.

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 executing systematic trading strategies.