# AUSPICE

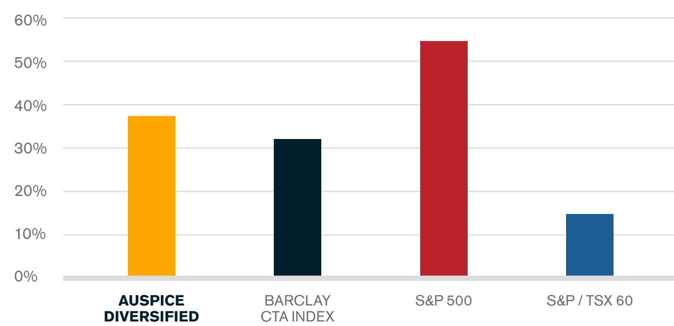
# DIVERSIFIED PROGRAM

## COMMENTARY + PORTFOLIO FACTS

## AUGUST 2016

### CUMULATIVE PERFORMANCE

( SINCE JANUARY 2007* )




| | | | |
|---|---|---|---|
| Correlation | 0.76 | -0.24 | -0.14 |

*Cumulative performance from January 2007. This represents the first full year of the fund and is most representative of the current strategy and portfolio.

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AUSPICE **DIVERSIFIED PROGRAM**

# COMMENTARY + PORTFOLIO FACTS

**AUGUST 2016**

## SUMMARY

The Auspice Diversified Program softened a modest 1.55% in August remaining positive for the year despite weakness in the major CTA benchmarks for the month. The Barclay CTA Index pulled back 1.85% (Table 1) while the SG CTA Index pulled back over 3% (for reference).

The global markets, both financial and commodity, were mixed on the month – some higher, some lower, nothing extraordinary. Despite "hawkish" comments from the FED indicating the possibility of raising rates before year end, the market did not appear to react overly favorably. Equities were neutral with MSCI World and S&P falling 0.13% and 0.12% respectively.

While the US dollar made gains on global currencies post the FED comments, this appears at the expense of already buoyant US equity markets which "sold the news".

Commodities were off overall, but individual sectors and markets moved independently. After sharp sell-offs in Energy and Grains in July, Energies came back yet Metals and Grains suffered. Gold fell 3% to close the month.

The strategy currently shows an outperformance to peer benchmarks for the month, in line for the year with outperformance long term as outlined in Table 1 per the Barclay CTA Index.

## OUTLOOK

We reiterate a cautionary tone: despite the low VIX (<15) and given the high levels of global equity markets, coupled with a number of significant unknowns, risk management and a rules based process should lead any strategy. This is especially important for those seeking the benefits of negative correlation should the traditional markets inevitably correct.

While we are biased, and believe this is an ideal time to add or increase CTA/Managed Futures exposure, the global marketplace has acknowledged this. According to Preqin, flows into CTA funds increased 11% to June 30 while traditional "hedge funds" saw significant outflows.

LINK **Hedge Funds: CTA Funds Offer Bright Spot**

Moreover, if one already has CTA exposure but can add additional CTA returns that are accretive or low correlation, it makes perfect sense. At 0.55 correlation to the SG CTA Index on a 1 year basis (daily returns), the combined performance and non-correlation to other CTAs is valuable. Coupled with outperformance to the Barclay CTA Index in the critical times of 2008, 2010 and 2014 (Chart 1), the Auspice Diversified Program remains a potentially valuable addition to many portfolios.

Chart 1 **HISTORICAL GROWTH OF $1000 INVESTMENT**

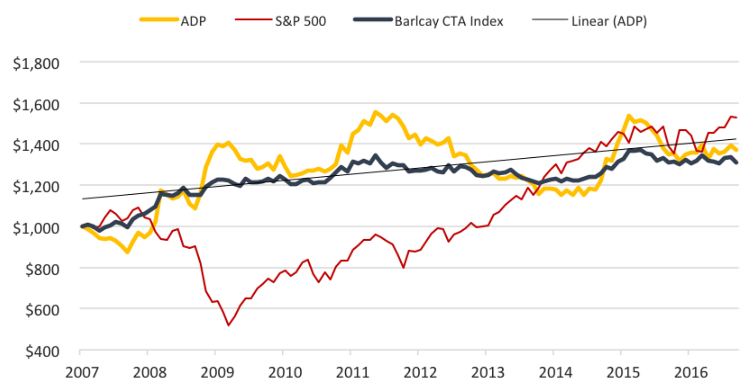


Table 1 **ABSOLUTE PERFORMANCE**

| | Auspice Diversified | Barclay CTA Index | S&P 500 | TSX 60 |
|---|---|---|---|---|
| 1 Month | **-1.55%** | -1.85% | -0.12% | 0.47% |
| 2016 YTD | **1.05%** | 0.27% | 6.21% | 11.36% |
| 1 yr (Sep 15) | **1.71%** | 0.12% | 10.08% | 4.40% |
| 3 yr (Sep 13) | **13.80%** | 7.58% | 32.94% | 17.07% |
| 9 yr (Sep 07) | **57.04%** | 31.74% | 47.28% | 7.29% |
| Annualized (Jan 07) | **3.34%** | 2.84% | 4.50% | 1.42% |

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## ATTRIBUTIONS AND TRADES

August brought a period of general commodity and financial market consolidation and choppiness which made it a challenging environment for trend following approaches. While some sectors indeed followed trend, other experienced reversals within the month and recent months.

Gains came from 2 sectors led by Grains and complimented by Equities (see Chart 2). Losses were spread across the remaining sector but led by Softs, Rates and Metals.

In Grains, most positions were held and the gains came from shorts in Corn and Wheat while a modest long position in Soybeans distracted very little.

Equities, while not an incredibly strong sector globally, managed to provide a positive attribution on the back of the long Hang Seng exposure complimented by small gains from the remainder of the sector held long and short VIX.

**Return Drivers:** While Short Term (non-trend) and Mean Reversion strategies produced a positive result, they did not eclipse the weakness from the primary return drivers of Trend and Momentum. See Chart 3.

Chart 2 **SECTOR PNL MONTHLY ATTRIBUTION**

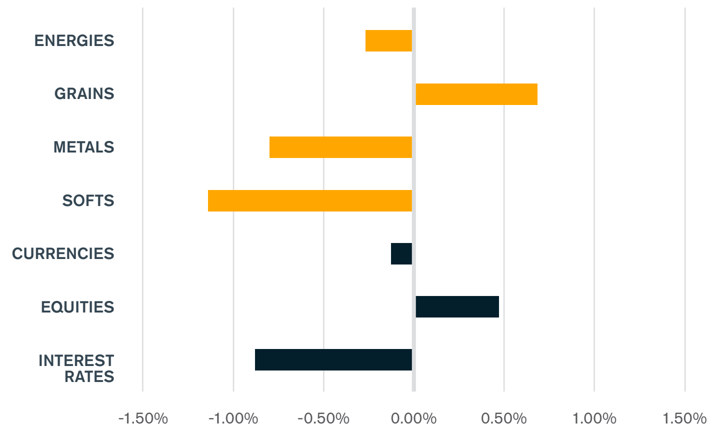
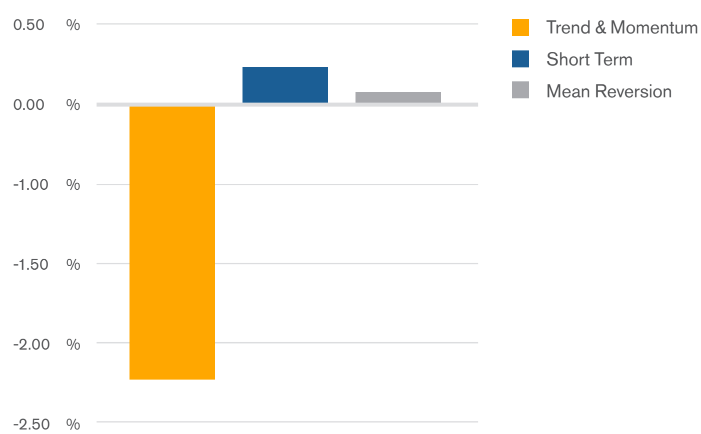



Chart 3 **STRATEGY (RETURN DRIVER) ATTRIBUTION**




## POSITION HIGHLIGHTS

### GAINS

- Wheat and Corn: both fell over 8%.
- Hang Seng: Strongest of Equities gained 5.6%.
- VIX: Fell over 10%, consolidating at month-end.
- Sugar: partially offset weakness in Cotton, rallying over 5%.

### LOSSES

- Cotton: Dropped over 11% causing an exit of most of the exposure.
- US 10 Yr Notes: Corrected after move up since the fall of 2015, long positions held.
- Metals: Exited positions in Nickel, Silver, Platinum and Gold on weakness.
- Gasoline: Short entered late July was exited on early month strength.

## EXPOSURE AND RISK ALLOCATION

Portfolio risk shifted modestly during the month with Commodity markets gaining over 2% of the total risk budget of the portfolio over financials (which fell by the same amount). The portfolio is commodity tilted as can be seen in Chart 4.

The largest change came from an increase in Grain sector risk as markets deteriorated and existing positions were held (See Chart 5). Most other sectors had risk trimmed while Energies increased slightly as many petroleum markets rallied back after a weak July performance.

Reductions in Commodity risk came from Softs and Metals. This largely came from exiting positions in Cotton and Coffee and from general softening in Metals as well as exiting or reducing exposures.

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE

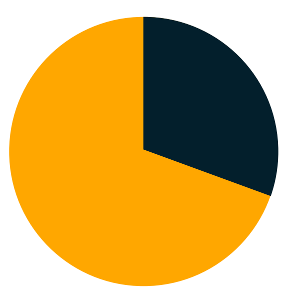
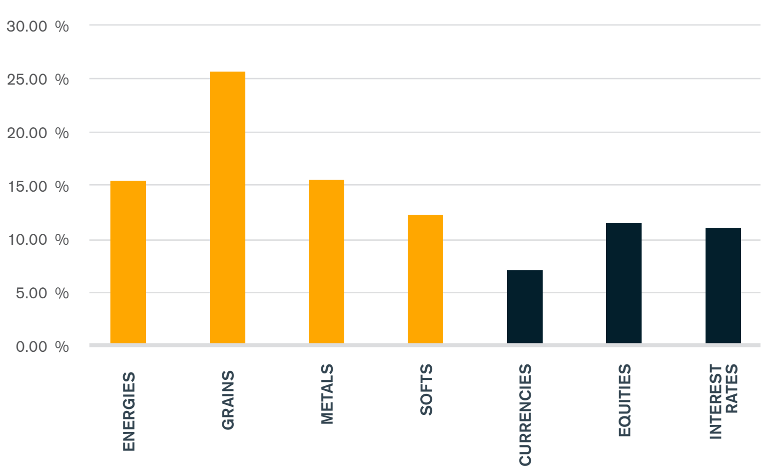



**Chart 5** CURRENT SECTOR RISK




## CURRENT RISK BY SECTOR

**ENERGIES** 15.26%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Heating Oil | Long | 5.21% |
| Natural Gas | Long | 4.99% |
| RBOB Gasoline | Short | 4.14% |

**GRAINS** 26.41%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Wheat | Short | 13.58% |
| Corn | Short | 10.58% |
| Canola | Short | 1.55% |

**METALS** 15.70%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Zinc | Long | 7.83% |
| Silver | Long | 2.94% |
| Copper | Short | 2.64% |

**SOFTS** 12.27%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Sugar #11 | Long | 10.43% |
| Cotton | Long | 1.84% |
| | | |

**CURRENCIES** 7.38%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Japanese Yen | Long | 3.54% |
| British Pound | Short | 2.84% |
| Aussie Dollar | Long | 0.43% |

**EQUITIES** 12.05%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Hang Seng Mini | Long | 4.90% |
| NASDAQ 100 (USA) | Long | 2.90% |
| TSX S&P 60 | Long | 1.79% |

**RATES** 10.93%

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Long Gilt (UK) LIFFE | Long | 7.40% |
| Treasury Bond/30yr (USA) | Long | 2.57% |
| Treasury Note/10yr (USA) | Long | 0.64% |

* Risk is expressed as the maximum expected loss in a position or sector divided by the total portfolio risk across all positions.

# COMMENTARY + PORTFOLIO FACTS

**AUGUST 2016**

## STRATEGY DESCRIPTION

Auspice Diversified is our flagship strategy. It is a rules-based multi-strategy investment program designed to deliver superior, non-correlated returns at critical times. It represents the culmination of the ongoing research and experience of the Auspice Portfolio Management and Research teams.

The strategy draws from all of Auspice's current research (the Auspice Building Blocks). The strategy is rooted in trend following but is our most active and evolving multi-strategy quantitative approach pulling together other complementary strategies and wrapping them in a rigorous risk and capital allocation model. The strategy is designed to be agile and resilient as we believe these traits are necessary in order to generate performance long term.

### THE MAIN POINTS OF DIFFERENTIATION INCLUDE:

- Higher allocation to commodities relative to our peers,
- Negative correlation to equity, no correlation to commodity,
- Low risk (margin to equity average 6.7%) makes it scalable, low round turns per million.
- Portfolio Management team with experience trading in volatile environments.
- Positive skew: Auspice Diversified has outperformed at critical times of crisis, recovery, and volatility expansion.

## FUND FACTS

**Chart 6** PORTFOLIO EXPOSURE (MARGIN TO EQUITY)

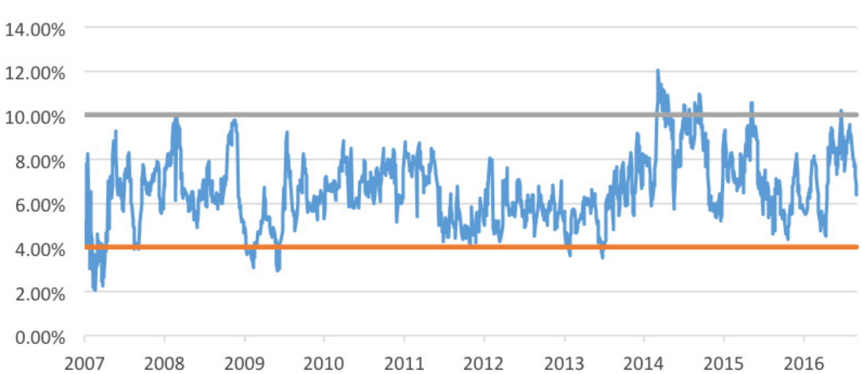



**Table 3** NAVS

| NAV | Auspice Managed Futures LP* |
|---|---|
| Series 1 | 1234.8562 |
| **NAV** | **Auspice Diversified Trust** |
| Class A | 9.6521 |
| Class F | 9.9841 |
| Class S | 9.4167 |
| Class H | 10.9011 |
| Class I | 11.6971 |
| Class X | 11.4190 |

| Program Statistics (from Jan 2007) | | Trade Statistics | |
|---|---|---|---|
| Annualized Return | 3.34% | Avg Monthly Gain | 2.81% |
| Annualized Std Dev | 11.60% | Avg Monthly Loss | -2.16% |
| Largest Drawdown | -26.04% | Daily Std Dev | 0.70% |
| Sharpe Ratio[1] | 0.30 | Daily VAR (sim w/99% conf) | -1.10% |
| MAR Index[2] | 0.14 | Round Turns per $million | 366 |
| Sortino | 0.75 | Margin to Equity ratio | 6.62 |
| Upside/Downside Volatility[3] | 2.84% / 1.28% | Average Hold Period (Days) | 70 |
| Correlation to S&P 500 | -0.24% | % Profitable | 35.65% |
| Correlation to TSX60 | -0.14% | $Win / $Loss | 1.79 |
| Correlation to BCOM ER | 0.05 | | |

| Program Details | |
|---|---|
| Structure | Unit Trust / LP / Mngd Account / Offshore |
| Mgmt Fee | 0-2% |
| Incentive Fee | 20% w/High-Water Mark |
| Liquidity | Monthly (no lockup) |
| Firm Assets | $226M |
| Min. Investment | Accredited Investor / QEP |
| Unit Pricing | $CAD or $USD |

1. Assumes Risk free rate of 0%. 2. MAR is the annualized return divided by the largest drawdown.
3. Standard deviation of positive (Upside) or negative (Downside) monthly returns over the risk free rate.

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## FUND FACTS (CONT)

### MONTHLY PERFORMANCE TABLE*

| YEAR | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2016 | -0.22% | 3.12% | -4.93% | 3.59% | -1.64% | 0.56% | 2.44% | -1.55% | | | | | **1.05%** |
| 2015 | 4.66% | -1.93% | 0.47% | -0.98% | -2.03% | -1.84% | -4.36% | -2.14% | 0.26% | -2.74% | 2.56% | 0.66% | **-7.47%** |
| 2014 | -2.02% | 1.62% | -1.84% | 3.25% | -3.11% | 2.65% | -0.43% | 3.92% | 8.56% | -0.78% | 7.05% | 4.19% | **24.76%** |
| 2013 | 0.40% | -2.23% | 0.26% | 0.99% | -0.90% | 0.66% | -1.54% | -1.33% | -4.07% | 2.01% | 0.04% | -0.36% | **-6.01%** |
| 2012 | 2.41% | -1.11% | -1.19% | 0.60% | 1.72% | -6.29% | 1.17% | -0.70% | -3.64% | -1.80% | 2.38% | -0.81% | **-10.24%** |
| 2011 | 1.39% | 2.97% | -1.16% | 4.09% | -1.31% | -1.62% | 2.16% | -1.09% | -2.60% | -3.82% | 1.07% | -3.44% | **-3.66%** |
| 2010 | -3.26% | 0.45% | 0.61% | 0.95% | 0.01% | 0.62% | -1.02% | 1.07% | 1.82% | 6.98% | -2.51% | 6.68% | **12.53%** |
| 2009 | -0.61% | 1.08% | -2.27% | -3.32% | -0.58% | 0.15% | -3.23% | 0.75% | 1.44% | -2.31% | 4.84% | -3.83% | **-7.93%** |
| 2008 | 5.60% | 14.59% | -1.72% | -1.58% | 0.71% | 2.86% | -5.61% | -1.99% | 6.86% | 10.80% | 5.77% | 2.73% | **44.30%** |
| 2007 | -1.43% | -1.76% | -2.42% | -0.79% | 0.71% | -1.32% | -3.16% | -3.07% | 5.87% | 4.53% | -2.13% | 2.29% | **-3.11%** |

* Returns represent the oldest series of Auspice Managed Futures LP, Series 1 (2% management and 20% performance fee).
See Important Disclaimers and Notes for additional details.

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## IMPORTANT DISCLAIMERS AND NOTES

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## COMPARABLE INDICES

*Returns for **Auspice Diversified or "ADP"** represent the performance of the Auspice Managed Futures LP Series 1. Performance is calculated net of all fees.

The **Barclay CTA Index** is a leading industry benchmark of representative performance of commodity trading advisors. There are currently 532 programs included in the calculation of the Barclay CTA Index for 2016. The Index is equally weighted and rebalanced at the beginning of each year. It is a non-investable index.

The **S&P/TSX 60 Index** is designed to represent leading companies in leading industries. Its 60 stocks make it ideal for coverage of companies with large market capitalizations and a cost-efficient way to achieve Canadian equity exposure. Price Return data is used (not including dividends).

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Price Return data is used (not including dividends).

The **(MSCI) World Index**, Morgan Stanley Capital International, is designed to measure equity market performance large and mid-cap equity performance across 23 developed markets countries, covering approximately 85% of the free float-adjusted market capitalization in each. This index offers a broad global equity benchmark, without emerging markets exposure.

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.

**Excess Return (ER)** Indexes do not include collateral return.

The **SG CTA Index** 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.

## PERFORMANCE NOTES

The Equity benchmarks used in this material are intended to reflect the general equity market performance. They are shown to illustrate the non-correlated attributes versus other assets such as the Barclay CTA Index and the Auspice Diversified Program. Adding non-correlated assets within a portfolio has the potential to reduce portfolio volatility and drawdowns.

## QUALIFIED INVESTORS

For U.S. investors, any reference to the Auspice Diversified Strategy or Program, "ADP", is only available to Qualified Eligible Persons "QEP's" as defined by CFTC Regulation 4.7.

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