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Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

January 2017 Review

Market Review

After a generally strong year for commodities in 2016, if one looks at the benchmarks in January, this hints at a lack of movement and some softness. E.g. Bloomberg Commodity Index gained 0.09% while GSCI lost 1.46% (Table 1). However, the reality was different as many commodities started the year by moving against recent trends: Weakness in Energies, strength in Grains and Soft Commodities, and a rally back in Precious Metals made a challenging environment for those following trends.

Leading to the big event in the inauguration of Donald Trump in the US, some believed that the jittery equity markets would react and possibly correct, but it was not the case. Equities remain resilient: The S&P 500 gained 1.79% and the commodity tilted Canadian TSX/S&P60 gained over 1.00%.

Interest Rates were steady as a futures rally started in late December failed to extend while the US Dollar finally corrected after gaining for the latter half of 2016. Global currencies surged universally during the month.

Index Review

Auspice Broad Commodity softened 1.59% in January slightly underperforming the long-only benchmarks. See Table 1.

Table 2 illustrates that on a long term basis (9 year annualized) the ABCERI has not only outperformed its benchmarks and is the only positive return of the group through both up and down commodity cycles, but the volatility is far lower. Importantly, this highlights the strategy's ability to limit the downside and volatility significantly while providing the same or better gains.

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 Year-To-Date

2017	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
1 Month	**-1.59%**	-1.46%	0.09%	-0.68%
YTD	**-1.59%**	-1.46%	0.09%	-0.68%
1 Yr Rolling	**7.57%**	15.37%	13.45%	12.48%

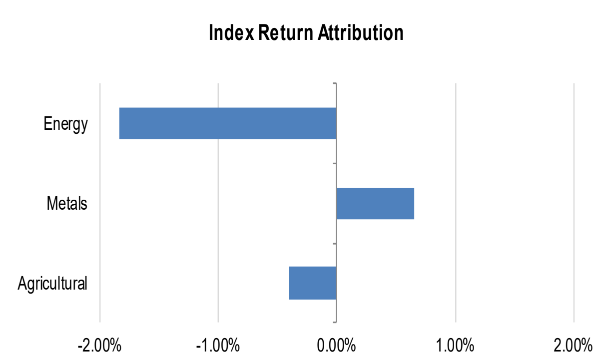
Table 2: Long Term Performance

9 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	**1.92%**	-12.13%	-8.36%	-8.40%
Annual Std. Dev.	**10.98%**	24.02%	18.41%	21.13%
Sharpe Ratio	**0.17**	-0.50	-0.45	-0.40
MAR Ratio	**0.05**	-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	**-3.66%**	-45.71%	-37.55%	-41.20%

Chart 1: Index Return Attribution



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Portfolio Recap:

There were only two changes to the portfolio during the month despite the commodity market movement. Shifting from flat to adding positions in Grains occurred due to a sharp reversal as the downtrend came to an end.

The portfolio is now long 8 of 12 commodity components (or 66%) and includes all 3 sectors – Energy, Metals, and Ags.

Performance was positive in 1 of the 3 sub-sectors of the index with Metals making gains (see Chart 1) while Energies and Ags offset the benefit for the portfolio.

Energy

After the Energy market moved higher to end 2016, it started the year by correcting across the complex. Both petroleum markets and natural gas softened while the strategy remains long all components on a positive long term trend. No changes.

Metals

Metals strengthened across the board to the benefit of the long exposure in base metals. While Precious Metals also strengthened, the portfolio is without an exposure given the long term weakness.

Agriculture

After providing the largest attribution for the 2016 year in the portfolio, the sector had a modest correction in January.

A reversal in trend in the strongest of the Grains, led to new weightings in Soybeans and Corn while the portfolio remains without exposure in the weaker Wheat market.

In Softs, gains were made in Cotton as the market rallied over 6%.

Outlook

Despite the correction in many markets, the commodity sector starts 2017 as it left 2016: on a positive trajectory and adding to its exposure. The commodity cycles are typically long and the shift that started in late 2015 remains intact.

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.

Moreover, we believe the key aspect to participating in this valuable asset class remains a rules-based approach. This enables investors to be able to participate earlier in asset class trends with far less risk and volatility but also exit those market that cease to show upside potential.

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.