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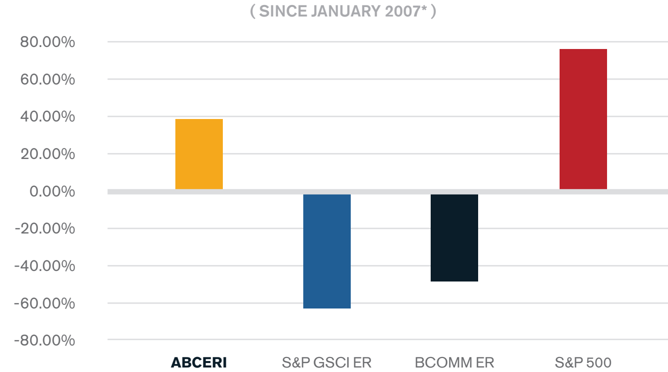
# BROAD COMMODITY INDEX

## COMMENTARY + STRATEGY FACTS

JULY 2017

CUMULATIVE PERFORMANCE
( SINCE JANUARY 2007* )




| | | | | |
|---|---|---|---|---|
| Correlation | | 0.63 | 0.75 | 0.23 |

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5 Star Morningstar Rating for Direxion Indexed Commodity Strategy Fund, which tracks ABCERI

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AUSPICE **BROAD COMMODITY INDEX**

# COMMENTARY + STRATEGY FACTS

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## SUMMARY

Commodities found support after struggling for most of the first half of the year. Precious and Base metals moved higher and Petroleum Energies followed suit. Grains however reversed their upwards momentum and dove sharply despite strength to end the first half.

Commodity benchmarks were stronger with the energy tilted GSCI leading with a gain of 6.11% while the more diverse Bloomberg Commodity Index gained 2.17%.

After raising rates in June, data in July showed the US economy picked up steam in Q2: GDP climbed at an annualized rate of 2.6% up from 1.2% in Q1. As such, most stock markets added to the yearly gains. This month the S&P gained 1.93% while the MSCI World added 2.33% for reference. However, after raising rates for the first time in 7 years, the resource tilted Canadian TSX/S&P60 continued to soften 0.16% to be one of the few stock markets negative on the year.

While falling post the FED announcement in June (raising rates), Interest Rate futures stabilized and moved higher much of July. The US Dollar continued to soften in July and has been on this path since the start of the year, enabling most global currencies to gather upside momentum.

**Auspice Broad Commodity fell 2.06%, lagging the long commodity index performance for the month and year to date. See Table 1.**

While lagging short term, the performance longer term is where the tactical value is illustrated. On a 3 year basis the ABCERI has limited the downside in challenging commodities environment while on a 10 year basis this performance significantly outstrips the commodity benchmarks.

Table 1 also illustrates that on a long term annualized basis 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.

Chart 1 **HISTORICAL GROWTH SINCE 2007**

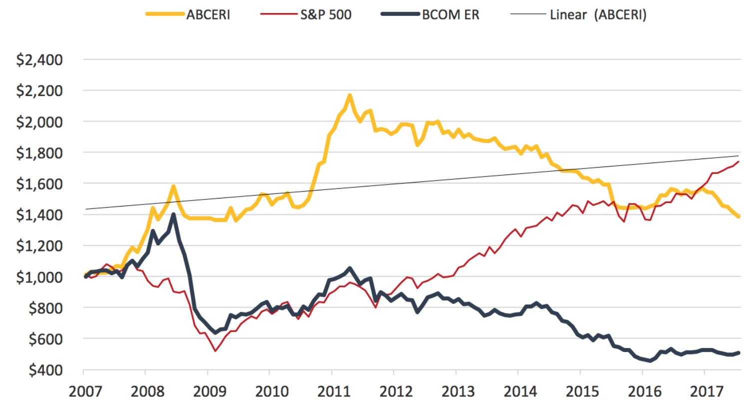


Table 1 **ABSOLUTE PERFORMANCE**

| | ABCERI | S&P GSCI ER | BCOM ER | S&P 500 |
|---|---|---|---|---|
| 1 Month | **-2.06%** | 6.11% | 2.17% | 1.93% |
| 2017 YTD | **-11.84%** | -6.91% | -3.57% | 10.34% |
| 1 yr (Aug 16) | **-10.89%** | 4.18% | 0.13% | 13.65% |
| 3 yr (Aug 14) | **-19.75%** | -53.64% | -34.02% | 27.95% |
| 10 yr (Aug 07) | **29.63%** | -65.87% | -51.06% | 69.75% |
| Annualized (Jan 07) | | | | |
| Return | **3.12%** | -8.90% | -6.22% | 5.38% |
| Std Deviation | **10.97%** | 23.08% | 17.46% | 14.90% |
| Sharpe Ratio | **0.36%** | -0.26 | -0.26 | 0.47 |
| MAR Ratio | **0.09%** | -0.11 | -0.09 | 0.10 |
| Worst Drawdown | **-36.09%** | -81.12% | -67.41% | -52.56% |

## OUTLOOK

After decent upside performance in 2016. the commodity sector had been weak to start 2017. The second half started choppy and challenging to trade, but gaining volatility that is noteworthy given the underperformance over the last several years.

It is in the times of weakness that investors, market pundits and media often forget the value of this sector. While trends have been pointed down overall, July reminds us of how quick things can change.

Given commodities have long cycles, the transitions can be frustrating given the inherent volatility. The transitions themselves can be protracted. However, from a historical perspective, we have been here before – many times. Moreover, from a quantitative perspective, commodities are near the bottom of the statistical distribution of returns while equities remain near the top.

**(We encourage you to check out the Auspice Blog for more info on this specific topic).**

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## ATTRIBUTIONS AND TRADES

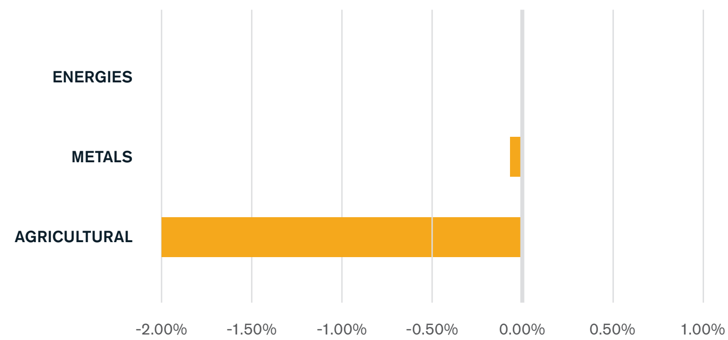
There were a number of changes in the portfolio in July. While Silver was exited early, adding components in Base Metals and Grains has added back exposure.

The portfolio is now long 4 of 12 commodity components (or 33%) and includes 2 of 3 sectors, Metals and Ags (see Chart 3).

Performance was negative in 2 sub-sectors of the index led by Ags (see Chart 2).

The top performing component was the long exposure to Gold alongside Copper while this was not enough to offset the loss in Wheat and Corn which were added early only to experience a sharp reversal.

**Chart 2** INDEX RETURN ATTRIBUTION




## SECTOR HIGHLIGHTS

### ENERGY

The strategy remains on the sidelines in the Energy sector. While natural gas remained weak the petroleum energies rallied.

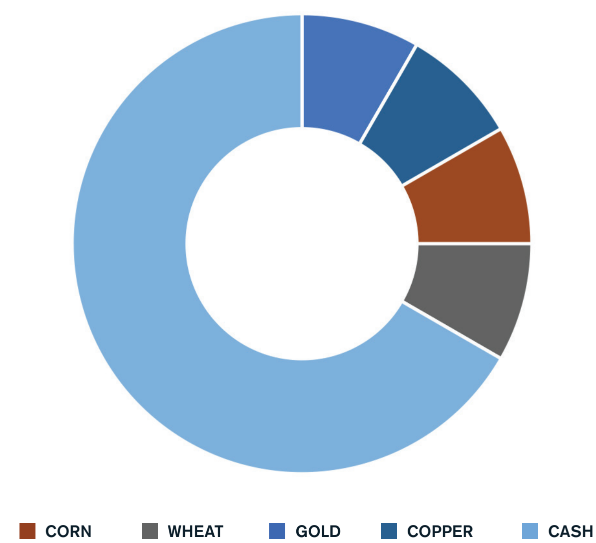
### METALS

Both Base and Precious metals were strong. While Silver started the month on weak footing causing an exit from exposure, the strategy continues to be long Gold. A long exposure was also added in Copper late in the month.

### AGRICULTURE

Strength in Grains that erupted in June moved the strategy to shift to long in Corn and Wheat. However, this reversed sharply for a loss. Positions held.

**Chart 3** COMPONENT EXPOSURE: LONG / CASH

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AUSPICE **BROAD COMMODITY INDEX**

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JULY 2017

## WHY AUSPICE INDICES

The Auspice Indices are designed to meet the needs of investors that are looking to participate in liquid alternatives through a disciplined approach without sacrificing performance, diversification, and transparency. We believe Auspice Indices encompass everything from alpha to beta, across a return continuum. The indices blend elements of active management and indexing into a transparent, published, single strategy rules-based approach.

## STRATEGY DESCRIPTION

The Auspice Broad Commodity Index aims to capture upward trends in the commodity markets while minimizing risk during downtrends.

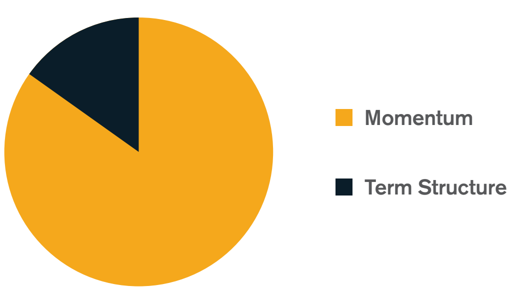
The index is tactical long strategy that focuses on Momentum and Term Structure to track either long or flat positions in a diversified portfolio of commodity futures which cover the energy, metal, and agricultural sectors. The index incorporates dynamic risk management and contract rolling methods. The index is available in total return (collateralized) and excess return (non-collateralized) versions.

### THE MAIN POINTS OF DIFFERENTIATION INCLUDE:

Auspice Broad Commodity combines tactical commodity exposure with capital preservation. We believe that traditional passive long-only commodity indices do not provide investors with an optimal long term investment solution.

- Seeks to capture upward trends in the commodity markets while minimizing risk during downtrends
- Tactical exposure to a diversified basket of commodities that can individually position long or flat (no position)
- Rules-based quantitative methodology combined with dynamic risk management and contract roll optimization to deliver superior returns

### RETURN DRIVERS




| AUSPICE BROAD COMMODITY INDEX |
| --- |
| Long / Flat Approach |
| Positions can be changed on an intra-month bases |
| Accounts for Short-term Price Trends |
| Practices a Smart Roll-Yield to minimize impact of contango and backwardation |
| Broadly diversified (when exposed) and less concentrated in any one commodity sector |
| Rebalanced monthly based on volatility of each underlying commodity |

| LONG-ONLY COMMODITY INDICES |
| --- |
| Long-Only Approach |
| Positions are always 100% long |
| Doesn't take into account downward price trends |
| Contracts typically roll into next contract month |
| Poorly diversified amongst single sectors |
| Most rebalance annually based on predetermined weightings for commodity sector |

### OTHER DETAILS

Calculated and published by NYSE since 2010.

Tickers: Bloomberg ABCERI, Reuters ABCERI

### PRODUCT AVAILABILITY

Licensing and/or sub-advisory of the strategy

Bespoke product design

ETFs: through partner firms

40 Act Mutual Funds: US investors through partner firms

Separately Managed Accounts

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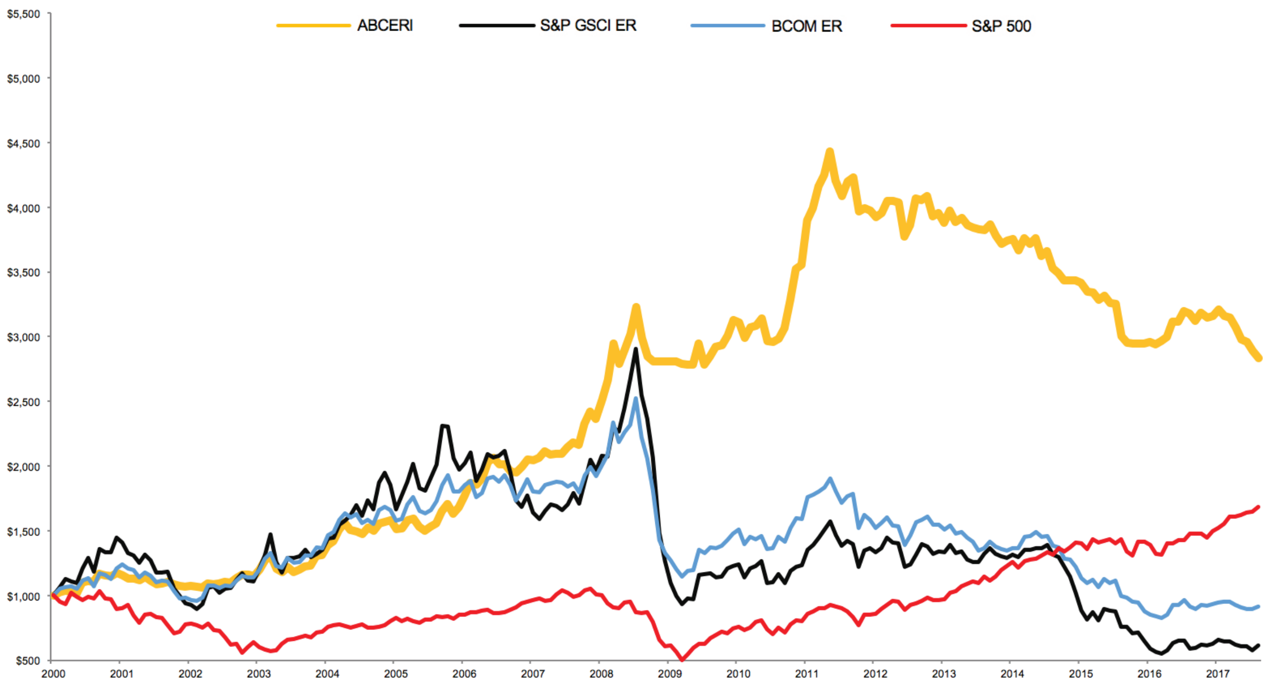
## COMPARATIVE BROAD COMMODITY INDEX PERFORMANCE




## MONTHLY PERFORMANCE TABLE*

| YEAR | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | RETURN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | -1.59% | -0.44% | -2.38% | -3.08% | -0.56% | -2.35% | -2.06% | | | | | | **-11.84%** |
| 2016 | -0.69% | 1.01% | 0.92% | 4.00% | 0.00% | 2.64% | -0.61% | -1.75% | 1.94% | -1.15% | 0.49% | 1.59% | **8.55%** |
| 2015 | -2.13% | -0.18% | -1.64% | 0.99% | -1.78% | -0.08% | -7.77% | -1.59% | -0.27% | -0.01% | 0.13% | 0.29% | **-13.45%** |
| 2014 | -2.41% | 2.68% | -1.23% | 1.27% | -3.79% | 1.03% | -3.57% | -0.96% | -1.64% | 0.00% | 0.00% | -0.54% | **-8.97%** |
| 2013 | 2.45% | -2.32% | 0.87% | -1.42% | -0.55% | -0.27% | -0.11% | 1.03% | -2.26% | -1.57% | 0.55% | 0.39% | **-3.27%** |
| 2012 | 0.90% | 2.28% | 0.09% | -0.38% | -6.43% | 2.24% | 5.41% | -0.37% | 0.82% | -3.79% | 0.64% | -1.92% | **-1.02%** |
| 2011 | 2.44% | 4.23% | -1.96% | 4.32% | -5.11% | -2.84% | 2.88% | 0.73% | -6.28% | 0.59% | -0.46% | -1.25% | **0.54%** |
| 2010 | -3.81% | 2.61% | 0.53% | 1.87% | -5.57% | -0.40% | 1.03% | 2.64% | 6.99% | 7.35% | 1.02% | 9.66% | **25.43%** |
| 2009 | 0.00% | -0.66% | -0.24% | 0.01% | 5.78% | -5.49% | 2.20% | 2.80% | 0.39% | 2.52% | 4.00% | -0.66% | **10.69%** |
| 2008 | 5.89% | 10.60% | -5.20% | 3.98% | 4.05% | 6.96% | -7.48% | -4.78% | -1.31% | 0.00% | 0.00% | 0.00% | **11.71%** |
| 2007 | 0.90% | 2.39% | -1.25% | 0.33% | 0.13% | 2.44% | 1.74% | -0.83% | 7.48% | 4.05% | -2.42% | 6.42% | **23.04%** |
| 2006 | 5.59% | -0.45% | 2.39% | 6.87% | 1.40% | -2.41% | 0.07% | -2.92% | -0.44% | 2.39% | 2.74% | -0.23% | **15.54%** |
| 2005 | 0.40% | 4.37% | 0.75% | -3.87% | -2.18% | 2.07% | 1.75% | 5.95% | 3.24% | -4.19% | 2.93% | 5.32% | **17.16%** |
| 2004 | 2.18% | 6.32% | 3.54% | -3.42% | -0.70% | -1.49% | 3.30% | -1.53% | 3.98% | 0.57% | 0.77% | -4.43% | **8.87%** |
| 2003 | 6.32% | 2.27% | -7.68% | -1.86% | 2.82% | -2.92% | 1.80% | 2.04% | 0.32% | 6.34% | 0.16% | 5.95% | **15.63%** |
| 2002 | -0.62% | -0.17% | 2.53% | -0.50% | 0.61% | 1.42% | -0.78% | 3.42% | 2.43% | -0.20% | -1.02% | 4.31% | **11.85%** |
| 2001 | -1.78% | -0.07% | -1.33% | 2.07% | -2.34% | 2.22% | 0.48% | 0.77% | -1.53% | -1.11% | -0.33% | 0.21% | **-7.04%** |
| 2000 | 2.41% | 1.08% | -0.62% | -1.93% | 8.62% | 1.29% | -0.71% | 5.78% | -0.97% | -0.86% | 2.49% | -1.77% | **15.24%** |

Represents index data simulated prior to third party publishing as calculated by the NYSE

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## IMPORTANT DISCLAIMERS AND NOTES

Futures trading is speculative and is not suitable for all customers. Past results is not necessarily indicative of future results. This document is for information purposes only and should not be construed as an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice. Auspice Capital Advisors Ltd. makes no representation or warranty relating to any information herein, which is derived from independent sources. No securities regulatory authority has expressed an opinion about the securities offered herein and it is an offence to claim otherwise.

## COMPARABLE INDICES

*Returns for **Auspice Broad Commodity Excess Return Index (ABCERI)** represent returns calculated and published by the NYSE. The index does not have commissions, management/incentive fees, or operating expenses.

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 **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.

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

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 **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.

The **Barclay BTOP50 CTA Index** seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50.

## 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. Adding non-correlated assets within a portfolio has the potential to reduce portfolio volatility and drawdowns.

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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