AUSPICE

# MANAGED FUTURES INDEX

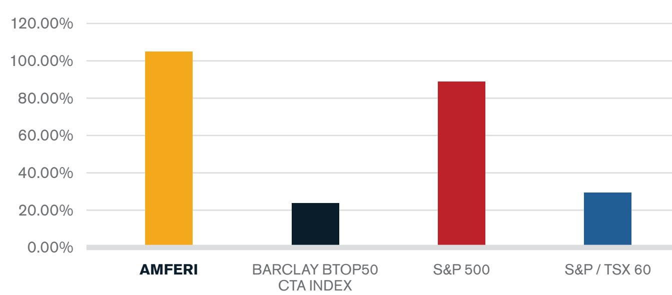
## COMMENTARY + STRATEGY FACTS

### DECEMBER 2017



CUMULATIVE PERFORMANCE

( SINCE JANUARY 2007* )





| | AMFERI | BARCLAY BTOP50 CTA INDEX | S&P 500 | S&P / TSX 60 |
|---|---|---|---|---|
| Correlation | 0.68 | -0.24 | -0.19 | |

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CTA Intelligence

Winner - 2016 & 2017
Best Investable CTA Index

AUSPICE **MANAGED FUTURES INDEX**

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**DECEMBER 2017**

**The strategy was again named the Best Investable CTA Index by CTA Intelligence Magazine at the US Awards event in New York on February 16th.**

## SUMMARY

The incredible year for global stock markets ended with another gain in December with the S&P and Nasdaq gaining 0.98% and 0.43% respectively, while the MSCI World added 1.26% for reference. This puts gains at near 20% plus for the year on these benchmarks. Gains on the resource tilted Canadian TSX/S&P60 were more modest at +6.63% for the year.

Interest Rate futures generally weakened as the US Fed added another hike in overnight rates mid-month. The Fed reiterated they anticipate additional increases in 2018 while inflation remains low in the US despite concerns voiced by the Bank of England Governor Mark Carney warning inflation has hit its highest level in 5 years. The US Dollar continued to weaken in the direction of the long-term trend established throughout 2017 and thus global currencies rebounded.

Commodity benchmarks gained in December led by another strong month in the energy complex and WTI oil hitting $60, its highest in 2 years. While Grains remained weak, Metals also finished the year strong led by Copper gaining over 25% in 2017. The energy tilted GSCI gained 4.30% to end the year with a gain while the more diverse Bloomberg Commodity Index added 2.88%.

**The AMFERI gained 1.54% slightly outperforming CTA benchmarks for the month: the Barclay BTOP50 CTA benchmark gained an estimated 0.99% (per Table 1).**

Chart 1 **HISTORICAL GROWTH SINCE 2007**

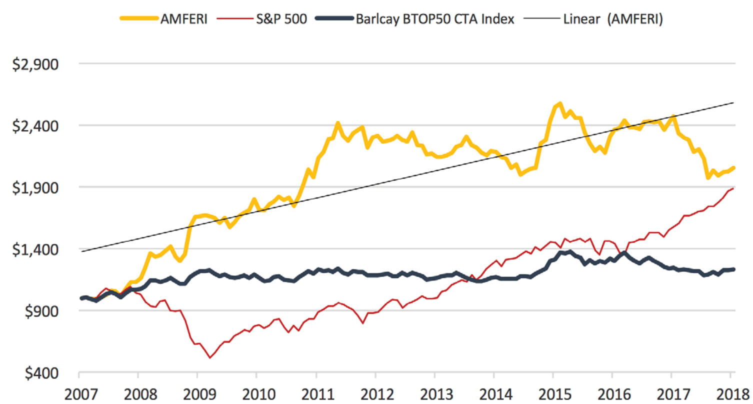


Table 1 **ABSOLUTE PERFORMANCE**

| | AMFERI | Barclay BTOP50 CTA Index | S&P 500 | TSX 60 |
|---|---|---|---|---|
| 1 Month | **1.54%** | 0.99% | 0.98% | 0.80% |
| 2017 YTD | **-16.94%** | -0.76% | 19.42% | 6.63% |
| 1 yr (Jan 17) | **-16.94%** | -0.76% | 19.42% | 6.63% |
| 3 yr (Jan 15) | **-19.22%** | -6.03% | 29.86% | 12.26% |
| 5 yr (Jan 13) | **-4.15%** | 6.34% | 87.47% | 34.46% |
| 10 yr (Jan 08) | **76.22%** | 15.01% | 82.08% | 18.70% |
| Annualized (Jan 07) | | | | |
| Return | **6.77%** | 1.95% | 5.93% | 2.36% |
| Std Deviation | **11.92%** | 6.42% | 14.65% | 12.84% |
| Sharpe Ratio | **0.66** | 0.34 | 0.52 | 0.29 |
| MAR Ratio | **0.29** | 0.14 | 0.11 | 0.05 |
| Worst Drawdown | **-23.32%** | -14.08% | -52.56% | -44.27% |

## OUTLOOK

We enter 2018 with many reasons for optimism.

While equity markets have a led the low volatility push higher for a number of years, we believe other asset classes are ripe for volatility and trends. We expect commodities, equities, interest rates and currencies will provide opportunities as sentiment shifts and action is taken.

While inflation and interest rates have been low, we are observing central bankers not only voice concerns, but also take action raising rates multiple times for the first times in 7 years.

Given the commodity to equity ratio is at its widest in 20 years, the low volatility has fostered very few concerns and created an artificial comfort. Moreover, we believe current supply and demand numbers may be favorable for a move higher in commodities along with increased volatility.

For more about this specific topic, Auspice published a paper in late December available in the Resources/Research section of the website.

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## ATTRIBUTIONS AND TRADES

The portfolio has remained relatively stable and only had a few changes in December.

Performance was positive in 2 of the 5 index sectors with Energies again leading the attribution complimented by Ags. Gains were made both from the long and short sides in these two commodity sectors.

For the month, the top performing positions were long WTI Crude Oil, short Natural Gas and long Copper in commodities. While commodity trends struggled in the portfolio in 2017, accounting for nearly all of the year's loss, the top performing markets were short Sugar and Natural Gas along with long Copper.

For the month, the losing positions were led by Gold which weakened early before rallying to end the month.

The portfolio maintained its slight short tilt to commodity exposures in 7 of 12 commodity components (or 58%) and includes all 3 sectors – Energy, Metals, and Ags (see Chart 3). Within commodities, we shifted to short Gold but added a long Cotton exposure. Within financial exposures, the only change was shifting to short the Canadian dollar.

## SECTOR HIGHLIGHTS

### ENERGY

The energy sector had another strong month with the long petroleum exposures moving up and Natural Gas moving lower. Keep a close watch on Natural Gas as cold weather had it move higher in the final days of the month.

### METALS

Precious metals softened sharply into mid-month before reversing course to end higher. The early weakness had the strategy shift Gold to short which proved poor timing. We remain short Silver. Copper provided a decent offset as it led the second half rally but did not offset the sector loss.

### AGRICULTURE

Ags did well as continued weakness in Grains all added small gains to our short exposures. Cotton continued to move higher and we shifted to long exposure with good timing prior to a strong push up. The portfolio remains short the top performing Sugar.

### INTEREST RATES

Interest Rate futures were virtually flat as small gains in the short end of the curve was offset by a slight move higher in US 30 year Bond futures. We remain short across the curve.

Chart 2 **INDEX RETURN ATTRIBUTION**

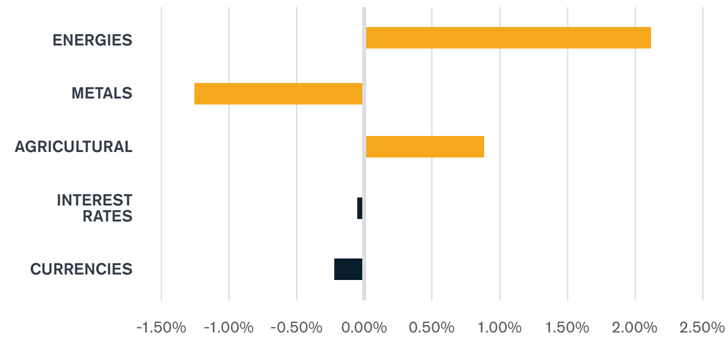
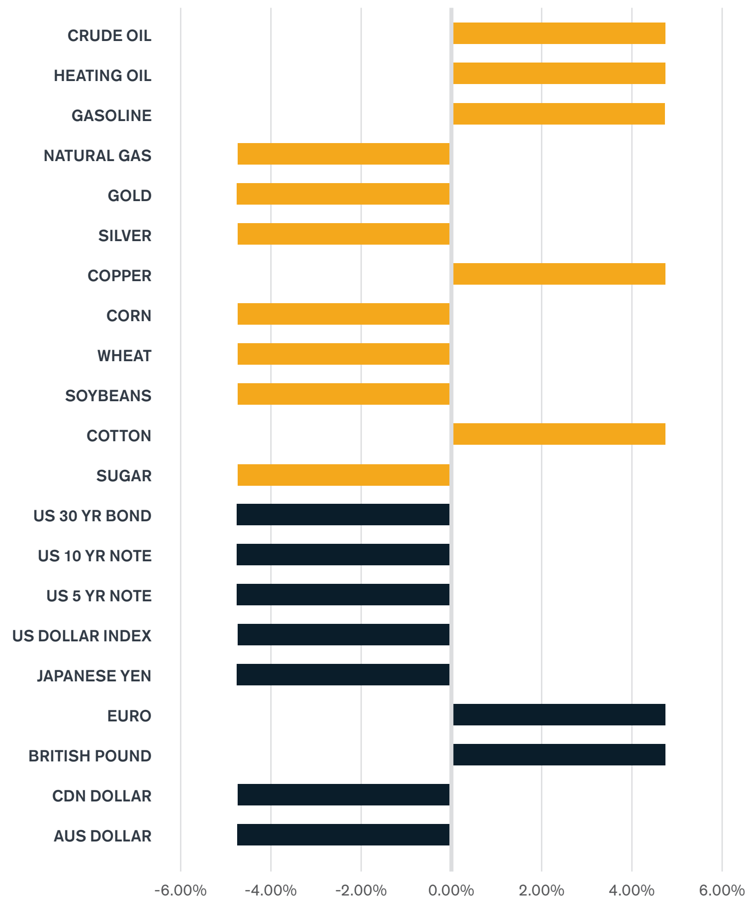



Chart 3 **COMPONENT EXPOSURE: SHORT/LONG**




### CURRENCIES

Currencies had a small negative attribution which came primarily from shorts in the Aussie and Canadian dollars. These markets have been weak yet rallied in December on the back of greenback weakness and commodity strength.

# COMMENTARY + STRATEGY FACTS

**DECEMBER 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.

### THE MAIN POINTS OF DIFFERENTIATION INCLUDE:

Auspice has addressed typical concerns with the valuable Managed Futures/CTA sector:

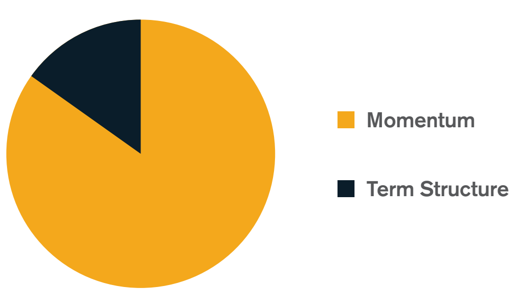
## STRATEGY DESCRIPTION

The Auspice Managed Futures Index aims to capture upward and downward trends in the commodity and financial markets while carefully managing risk.

The strategy focuses on Momentum and Term Structure strategies and uses a quantitative methodology to track either long or short positions in a diversified portfolio of 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 in total return (collateralized) and excess (non-collateralized) return versions.

| CHALLENGE | SOLUTION |
|---|---|
| **Transparency** | Rules-based index published approach that is completely transparent |
| **Liquidity** | Daily available (40 act Mutual Funds, ETFs) |
| **High Fees** | Low cost, management fee-only provider. No underlying or hidden fees typically associated with sub-advisory |
| **Ability to perform in bear market** | Outperformance in critical times |
| **All Managed Futures the same** | Compliments many single or multi-manager Managed Futures strategies |
| **Financial markets concentration resulting in high correlation to equities** | More balance of commodities and financials with no stock indicies exposure results in lower correlation to equity and peers |
| **Lack of long term track record** | Proven long term track record is published by NYSE |
| **Brand recognition** | Strategy used by public pensions, institutional investors and retail distributors in US and Canada |

### RETURN DRIVERS




### OTHER DETAILS

Calculated and published by NYSE since 2010.
Tickers: Bloomberg AMFERI, Reuters AMFERI

### 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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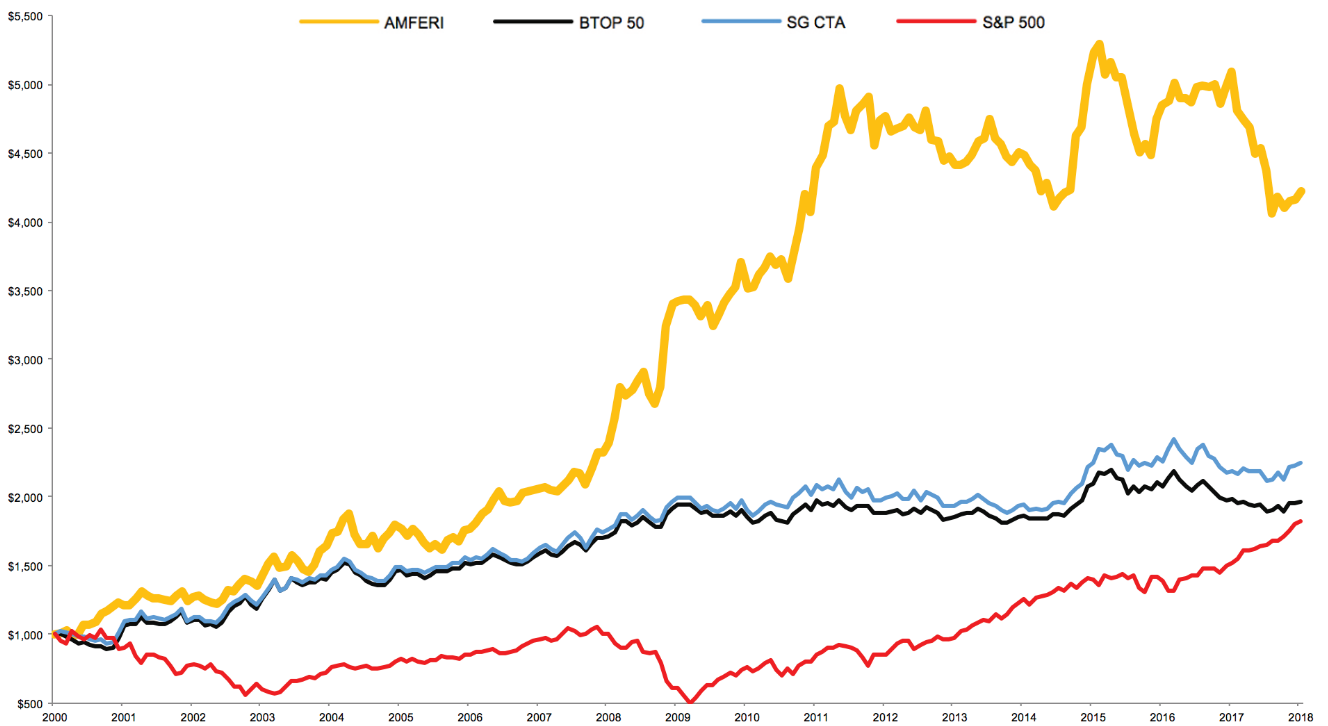
## COMPARATIVE MANAGED FUTURES INDEX PERFORMANCE




## MONTHLY PERFORMANCE TABLE*

| YEAR | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | RETURN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2017 | -5.56% | -1.48% | -1.05% | -4.02% | 0.84% | -3.43% | -7.36% | 3.08% | -1.95% | 1.32% | 0.20% | 1.54% | **-16.94%** |
| 2016 | 0.57% | 2.67% | -2.25% | -0.07% | -0.51% | 2.29% | 0.26% | -0.25% | 0.31% | -2.70% | 2.44% | 2.17% | **4.87%** |
| 2015 | 1.11% | -4.22% | 1.89% | -2.14% | -0.04% | -4.59% | -3.79% | -2.78% | 1.40% | -1.92% | 5.85% | 2.26% | **-7.26%** |
| 2014 | -1.67% | -0.86% | -3.50% | 1.47% | -3.79% | 1.38% | 0.96% | 0.38% | 9.45% | 1.26% | 6.70% | 4.64% | **16.55%** |
| 2013 | 0.08% | 0.55% | 1.01% | 2.27% | 0.55% | 3.09% | -3.05% | -0.96% | -1.87% | -0.86% | 1.47% | -0.31% | **1.82%** |
| 2012 | -2.20% | 0.46% | 0.40% | 1.21% | -1.48% | -0.41% | 3.11% | -4.44% | -0.22% | -3.16% | 0.60% | -1.38% | **-7.45%** |
| 2011 | 2.23% | 4.62% | 0.54% | 5.20% | -4.05% | -2.00% | 2.91% | 0.98% | 1.08% | -7.07% | 3.85% | 0.60% | **8.48%** |
| 2010 | 0.31% | 2.47% | 1.50% | 2.09% | -1.55% | 1.14% | -3.74% | 4.92% | 4.81% | 6.42% | -3.14% | 7.91% | **24.87%** |
| 2009 | 0.41% | -0.14% | -1.02% | -2.52% | 2.51% | -4.43% | 2.46% | 2.86% | 1.70% | 1.52% | 4.97% | -5.03% | **2.80%** |
| 2008 | 6.80% | 9.39% | -2.14% | 1.42% | 2.58% | 2.12% | -5.75% | -2.49% | 4.42% | 16.05% | 4.92% | 0.50% | **42.65%** |
| 2007 | 0.75% | -1.02% | -0.45% | 1.90% | 2.05% | 2.94% | -0.82% | -3.48% | 5.56% | 5.18% | 0.12% | 3.19% | **16.68%** |
| 2006 | 2.34% | 3.43% | 2.02% | 3.61% | 2.71% | -3.20% | -0.30% | 0.09% | 3.24% | 0.62% | 0.25% | 0.41% | **16.06%** |
| 2005 | -2.46% | 2.45% | -1.94% | -3.87% | -2.36% | 1.70% | -2.48% | 4.80% | 1.03% | -2.03% | 5.04% | 0.90% | **0.35%** |
| 2004 | 0.76% | 5.16% | 1.70% | -7.67% | -4.21% | 0.12% | 3.53% | -5.24% | 4.32% | 2.20% | 3.33% | -1.56% | **1.52%** |
| 2003 | 5.61% | 2.95% | -5.34% | 0.93% | 5.66% | -2.64% | -4.26% | -0.92% | 2.93% | 7.09% | 2.28% | 5.80% | **20.92%** |
| 2002 | 0.65% | -1.93% | -1.81% | -1.12% | 2.66% | 5.99% | -0.72% | 3.94% | 2.96% | -1.54% | -2.51% | 6.40% | **13.15%** |
| 2001 | 0.50% | 3.90% | 3.87% | -2.30% | -1.13% | -0.53% | -0.65% | -1.01% | 3.72% | 2.35% | -5.23% | 2.00% | **5.18%** |
| 2000 | 1.43% | 1.78% | -3.61% | 1.19% | 6.54% | 0.03% | 2.32% | 4.74% | 1.85% | 3.01% | 2.27% | -1.81% | **21.17%** |

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 Managed Futures Excess Return Index (AMFERI)** 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 Managed Futures Index prior to 11/17/2010 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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