



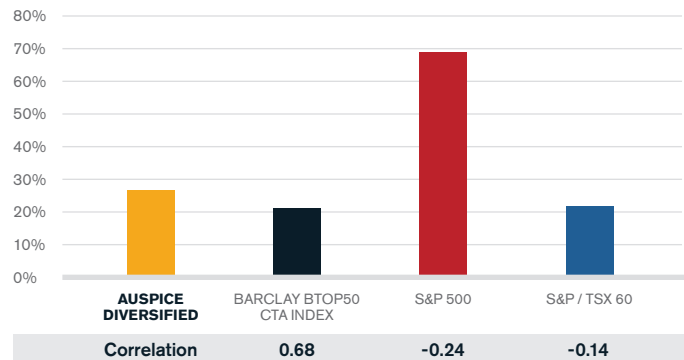
# DIVERSIFIED PROGRAM

COMMENTARY +  
PORTFOLIO FACTS

APRIL 2017



## CUMULATIVE PERFORMANCE (SINCE JANUARY 2007\*)



\*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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Altegris CTA Challenge



Silver Medal  
Best Opportunistic Hedge Fund - 2010

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**SUMMARY**

The Auspice Diversified Program softened 1.39% in April.

Despite underperforming thus far in 2017, the results remain ahead of the peer benchmarks on a 1, 3, and 10 year basis (Table 1).

There appears to be no correlation to the smoothness of the new President's first 100 days in office and the equity market. Some may say a negative correlation as while a tumultuous start, the equity markets continue their trend higher both in the US and abroad. The S&P 500 gained 0.91%, the TSX/S&P60 gained 0.36% and the MSCI World gained 1.33% for reference.

While the VIX continues to remain soft and any rallies have failed, low volatility generally plagues most financial and commodity sectors.

Despite the US Federal Reserve raising overnight rates mid-March, Interest Rate futures made a push higher (lower rates). This is the strongest move up since the US elections and a sell-off that began in mid 2016. At the same time, the US Dollar again weakened and global currencies were generally stronger vis-à-vis the Dollar.

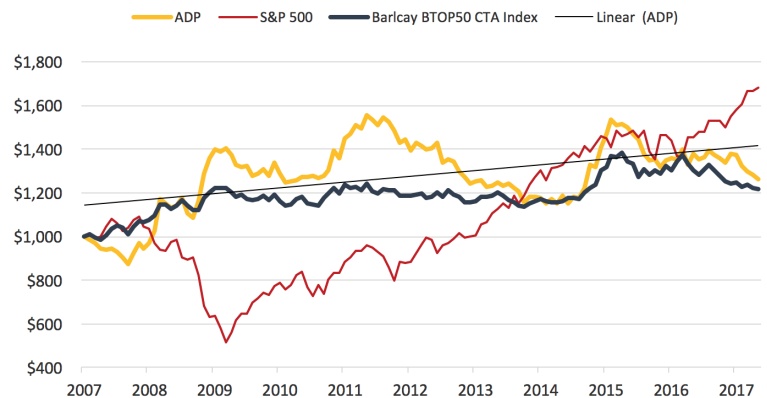
Commodities generally extended their weakness in April. The benchmarks, GSCI and Bloomberg Commodity, were both softer (-2.78% and -1.57% respectively). While 2017 has started on weak footing, we note the trend since early 2016 is still positive.

**OUTLOOK**

After posting a positive result in 2016, a challenging year for the sector as illustrated by pullbacks in the peer benchmarks (BTOP50 was -4.44%), the recent months are considered a normal correction within long term outperformance.

One of the challenges is that it is not only equity volatility that is low- it has been noted that 2016 and the start of 2017 was one of the least volatile periods in decades for many asset classes. However, given 2017 remains full of unknowns and we anticipate this will provide a number of market moving catalysts, we anticipate volatility may increase from these very low levels. From this volatility we can expect a reasonable amount of trends to develop and thus an optimistic opportunity set for the strategy whether financial or commodity opportunities.

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



**Table 1 ABSOLUTE PERFORMANCE**

	Auspice Diversified	Barclay BTOP50 CTA Index	S&P 500	TSX 60
1 Month	-1.39%	-0.61%	0.91%	0.36%
2017 YTD	-8.05%	-2.39%	6.49%	2.09%
1 yr (May 16)	-3.55%	-6.72%	15.44%	12.68%
3 yr (May 14)	11.43%	4.83%	26.55%	9.71%
10 yr (May 07)	36.59%	20.84%	60.84%	20.06%
Annualized (Jan 07)	2.30%	1.92%	5.15%	2.08%
Worst Drawdown	-26.00%	-11.92%	-52.56%	-44.27%

With a long term correlation of -0.24 to the S&P (see front page), and a low 0.39 correlation to the SG CTA Index (1 year basis - daily returns), this demonstrates the combined performance and non-correlation to equity and other CTAs is accretive and valuable. As illustrated in Chart 1, the strategy shows historic outperformance to the Barclay BTOP50 CTA Index in the critical times of 2008, 2010, 2014 and most recently in 2016 when non-correlated returns are most valuable.

We advocate patience for a strategy that has historically outperformed in times of need and opportunity.

**ATTRIBUTIONS AND TRADES**

Groundhog day: “Gains in the portfolio were led again by equity indices.”

Moreover, while North American markets again contributed, the biggest gains continued to come from the Asian and European markets – Hang Seng and DJ Euro Stoxx 50.

The month was dominated by shifts in long term trends encompassing both commodity and financial assets. As such a number of position changes were made across the portfolio. However, most sectors posted only small losses despite a number of position changes during the month. See Chart 2.

Most challenging were commodities led by Metals and Grains. While Grains were generally soft, causing us to change positions in Wheat, Canola rallied sharply against our short weight and we covered our risk for a loss. In Precious Metals, there was a significant shift to long exposure on the strength early in the month for Gold and Silver which didn't hold through month end.

Other significant shifts occurred in Currencies and Rates. US Dollar weakness and strength in currencies caused numerous shifts in trends adding long exposure in the Yen, British Pound and Euro while remaining short “commodity currencies” in Canada and Aussie Dollars. In Interest Rate futures, after moving to short across the curve in late October, the strategy transitioned to long weights.

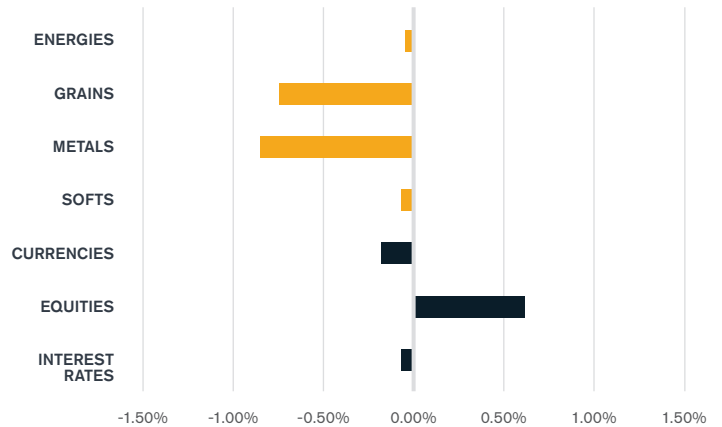
**Return Drivers:** While Trend and Momentum strategies struggled, there was a positive contribution from Short Term strategies. This provided a cushion to Trend focused approach despite modest risk allocation. See Chart 3.

**POSITION HIGHLIGHTS**

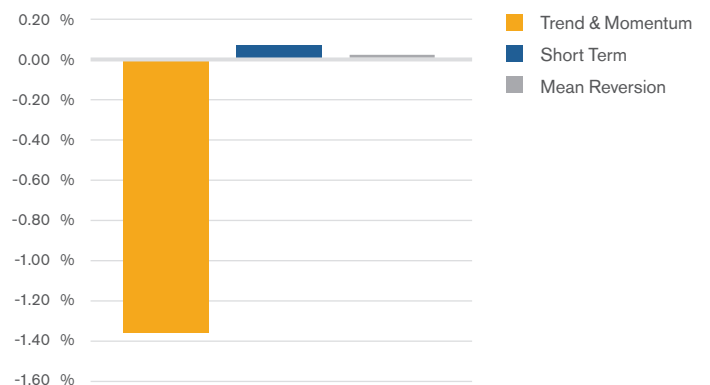
**GAINS**

- Hong Kong's Heng Seng led Equity Indices to gains.
- Short Sugar remains in a long term down trend.
- New short in Gasoline provided an offset to losses in Energy sector.

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION



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



**LOSSES**

- Grains: exited short in Canola while shifting Wheat to short weight.
- New long exposure in Silver is held despite month end weakness.
- Cotton corrected early and we reduced some of the long exposure.

**EXPOSURE AND RISK ALLOCATION**

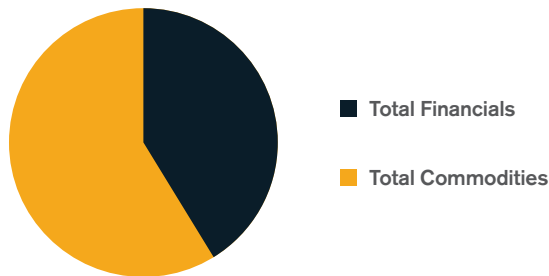
Commodity to Financial exposure was reduced in April. While remaining commodity tilted, the spread is more balanced at 59% commodity.

Within commodities, there were a number of notable shifts in exposure including reduction in Cotton exposure as well as within Grains. This was partially offset by adding risk in short Gasoline and long Precious Metals.

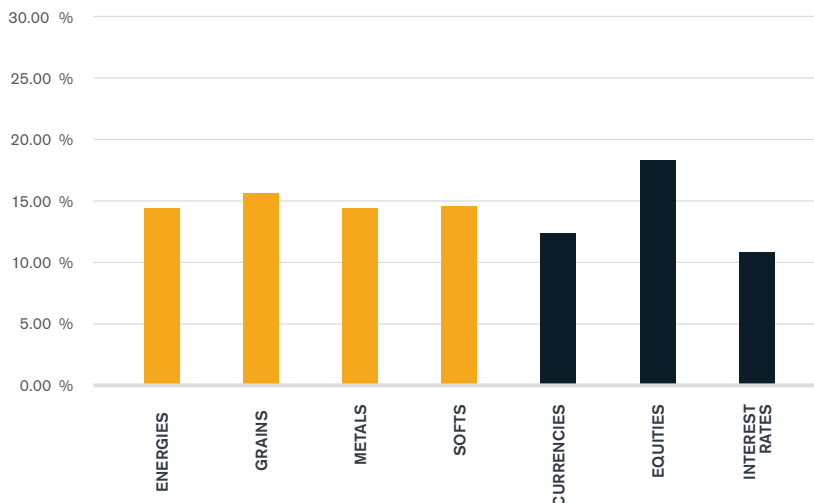
It is important to note that while equities led the attribution (Chart 2 previous page), the portfolio only holds moderately higher risk versus other sectors and this was actually reduced during the month.

Within Financials, both Currencies and Interest Rates exposure increased. Portfolio exposure continues to fluctuate but within our typical band as measured by the Margin to Equity ratio (see Chart 6 next page).

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE



**Chart 5** CURRENT SECTOR RISK



**CURRENT RISK BY SECTOR**

**ENERGIES 14.30%**

Largest Holdings	Position	% of Risk
RBOB Gasoline	Short	10.11%
Natural Gas	Short	3.71%
WTI Crude Oil	Long	0.34%

**GRAINS 15.48%**

Largest Holdings	Position	% of Risk
Soybeans	Short	7.09%
Wheat	Short	5.00%
Soybean Meal	Short	2.76%

**METALS 14.36%**

Largest Holdings	Position	% of Risk
Gold	Long	8.60%
Palladium	Long	2.44%
Silver	Long	2.27%

**SOFTS 14.56%**

Largest Holdings	Position	% of Risk
Sugar #11	Short	8.32%
Coffee	Short	3.42%
Cotton	Long	1.76%

**CURRENCIES 12.73%**

Largest Holdings	Position	% of Risk
Canadian Dollar	Short	4.66%
British Pound	Long	4.09%
Japanese Yen	Long	2.09%

**EQUITIES 18.03%**

Largest Holdings	Position	% of Risk
DJ EuroStoxx 50	Long	6.58%
Hang Seng	Long	5.04%
Nasdaq (USA)	Long	3.79%

**INTEREST RATES 10.54%**

Largest Holdings	Position	% of Risk
Treasury Note/10yr (USA)	Long	4.25%
Long Gilt (UK)	Long	3.08%
Treasury Bond/30yr (USA)	Long	2.52%

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

## 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.

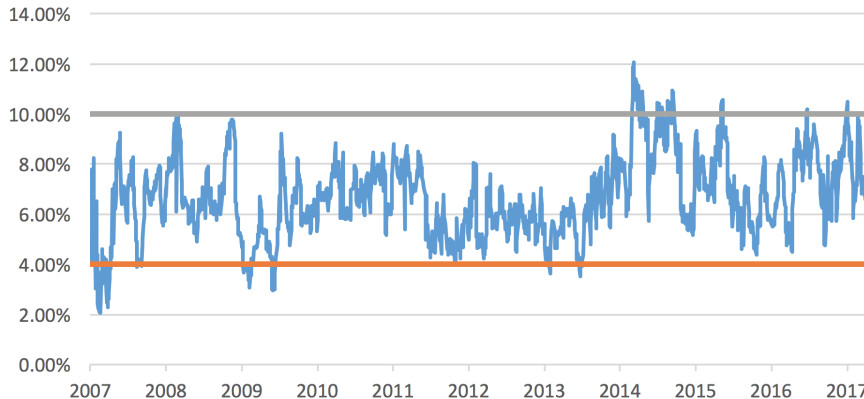
The strategy draws from all of Auspice's current research (the Auspice Building Blocks). The strategy is rooted in trend following but is our most active and evolving multi-strategy quantitative approach pulling together other complementary strategies and wrapping them in a rigorous risk and capital 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 <7.0%) 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	1136.5409	-1.39%
NAV	Auspice Diversified Trust	
Class A	8.8491	-1.44%
Class F	9.2180	-1.35%
Class S	8.6336	-1.44%
Class H	10.0625	-1.36%
Class I	10.8772	-1.26%
Class X	10.5438	-1.35%

Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	2.30%	Avg Monthly Gain	2.81%
Annualized Std Dev	11.34%	Avg Monthly Loss	-2.09%
Largest Drawdown	-26.04%	Daily Std Dev	0.69%
Sharpe Ratio <sup>1</sup>	0.31	Daily VAR (sim w/99% conf)	-0.96%
MAR Index <sup>2</sup>	0.09	Round Turns per \$million	444
Sortino	0.57	Margin to Equity ratio	6.57
Upside/Downside Deviation	0.16 / 0.06	Average Hold Period (Days)	21
Correlation to S&P 500	-0.24	% Profitable	43%
Correlation to TSX60	-0.14	\$Win / \$Loss	1.3
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	\$231M
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.

**FUND FACTS (CONT)**

▶ **MONTHLY PERFORMANCE TABLE\***

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
2017	-3.66%	-1.89%	-1.35%	-1.39%									<b>-8.05%</b>
2016	-0.22%	3.12%	-4.93%	3.59%	-1.64%	0.56%	2.44%	-1.55%	-1.06%	-1.34%	2.68%	-0.13%	<b>1.15%</b>
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%	<b>-7.47%</b>
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%	<b>24.76%</b>
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%	<b>-6.01%</b>
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%	<b>-10.24%</b>
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%	<b>-3.66%</b>
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%	<b>12.53%</b>
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%	<b>-7.93%</b>
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%	<b>44.30%</b>
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%	<b>-3.11%</b>

\* 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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## 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 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.

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 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.

## 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.

For Canadian investors, any reference to the Auspice Diversified Strategy or Program, "ADP", is only available to "Accredited Investors" as defined by CSA NI 45-106.

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