



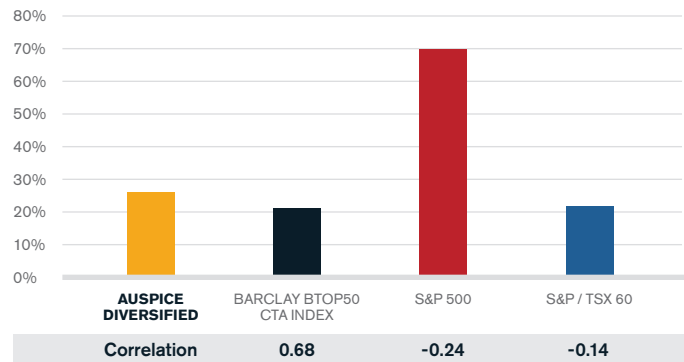
# DIVERSIFIED PROGRAM

COMMENTARY +  
PORTFOLIO FACTS

MAY 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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Winner - 2014  
Altegris CTA Challenge



Silver Medal  
Best Opportunistic Hedge Fund - 2010

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**SUMMARY**

The Auspice Diversified Program lost 0.53% in May.

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

It was an event filled month with the French elections pulling media away from White House drama even only for a short time. The early month emphatic win by Emmanuel Macron caused the CAC40 to relinquish some of its significant gains (6%+) made since the first round of the drawn out process. However, like most major equity benchmarks, it remains resilient and ended up higher on the month.

Back to drama: The US markets had their biggest sell-off in over 8 months on May 17 with the Dow dropping 373 points or 1.8%. as accusations by the former FBI Director against Trump were revealed. However, this nor allegations surrounding Russian communications seemed to matter – the markets turned around and marched higher. For the month, the S&P 500 gained 1.16% and the MSCI World gained 1.78% for reference while the commodity tilted Canadian TSX/S&P60 lost 1.36%.

The VIX briefly popped higher, gaining over 17% but also reverted and ended softer for the month.

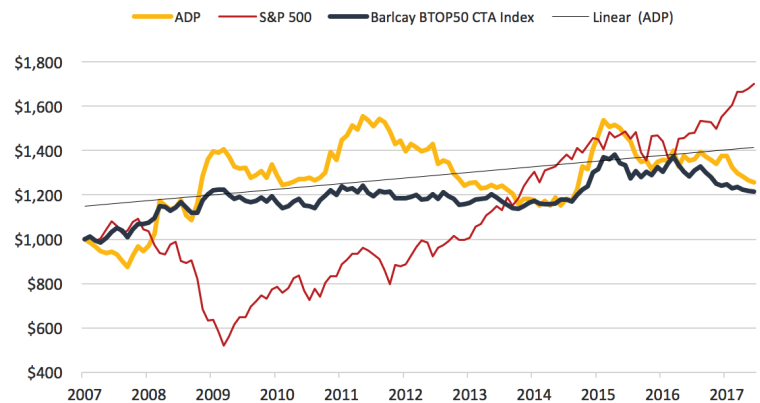
Rates started the month rising, yet also reverted to their trend by mid month, falling both domestically in the US and Canada as well as in Europe. The US Dollar extended its weakness in May vis-à-vis global currencies with the only currencies not responding were the “commodity currencies” such as Canadian and Aussie dollars.

Lastly, commodities were choppy and mostly weaker. Grains were largely soft while Energies bounced back late month along with Precious Metals. The benchmarks were also mixed with the energy tilted GSCI slightly positive while the more diverse Bloomberg Commodity Index was softer (+0.31% and -1.41% respectively). To reiterate, while 2017 has started on weak footing, we note the trend since early 2016 is still positive.

**OUTLOOK**

While a frustrating start to 2017 after a solid 2016 result that eclipsed peer benchmark results, the recent months are considered a normal correction within long term outperformance. Patience.

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



**Table 1 ABSOLUTE PERFORMANCE**

	<b>Auspice Diversified</b>	<b>Barclay BTOP50 CTA Index</b>	<b>S&amp;P 500</b>	<b>TSX 60</b>
1 Month	<b>-0.53%</b>	-0.11%	1.16%	-1.36%
2017 YTD	<b>-8.54%</b>	-2.44%	7.73%	0.70%
1 yr (Jun 16)	<b>-7.16%</b>	-5.27%	15.01%	10.39%
3 yr (Jun 14)	<b>9.23%</b>	3.24%	25.38%	8.34%
5 yr (Jun 14)	<b>-12.00%</b>	0.98%	84.06%	38.06%
10 yr (Jun 07)	<b>33.17%</b>	17.71%	57.57%	12.67%
Annualized (Jan 07)	<b>2.22%</b>	1.90%	5.23%	1.93%
Worst Drawdown	<b>-26.00%</b>	-11.97%	-52.56%	-44.27%

Volatility is low, markets are choppy and right now equity is king. However, we all know this won't always be the case. We anticipate increased volatility and market catalysts in the second half of the year. Commodity market are overdue for opportunity.

With a long term correlation of -0.24 to the S&P (see front page), and a low 0.41 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.

## ATTRIBUTIONS AND TRADES

The best and worst part about Groundhog day? It happens over and over again: "Gains in the portfolio were led again by equity indices."

Equity index performance came from most markets: US domestic, Asian, and European with the largest gain from Hong Kong Hang Seng. The Canadian TSX60 was down on the month where we fortunately exited in March.

Financial markets generally followed recent trends for the month, and thus less changed and profitable. Gains and opportunities came from all three financial sectors per Chart 2.

However, there were a number of changes in trends for commodities. The biggest challenges came from Energy and Metals as reversals in trend in the petroleum markets were not offset by a strongly weakening Natural Gas weight. Moreover, Metals were choppy and markets such as Gold and Copper were exited or reduced.

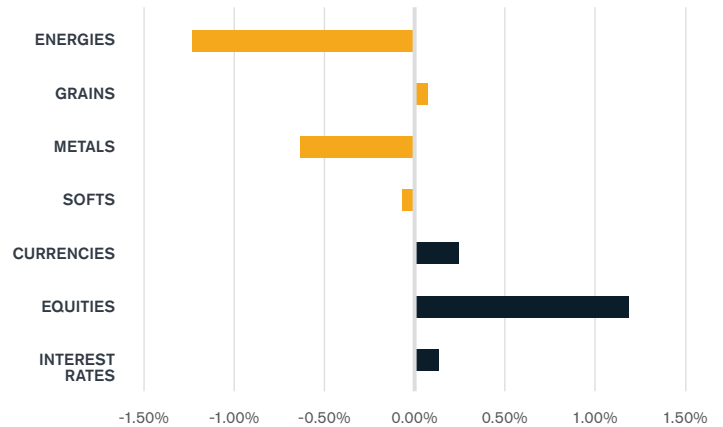
**Return Drivers:** The thing about non-correlation is sometimes it correlates. All three key returns drivers underperformed in May. However, notably within Trend and Momentum, some of the longer term strategies did perform well and made gains (the Auspice Managed Futures Index Strategy). See Chart 3.

## POSITION HIGHLIGHTS

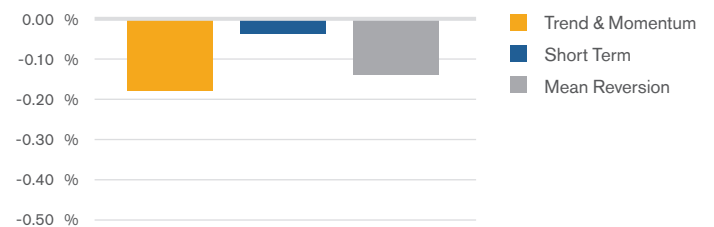
### GAINS

- Hong Kong's Hang Seng again led Equity Indices along with US domestic and Eurostoxx.
- Short Natural Gas led the Energy sector.
- Long Euro and the US Dollar weakened.

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION



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



### LOSSES

- Petroleum Energy: market bounced back late in the month against shorts.
- Weakness in Copper had portfolio shift to short.
- Cotton continued to weaken on the remaining exposure.

**EXPOSURE AND RISK ALLOCATION**

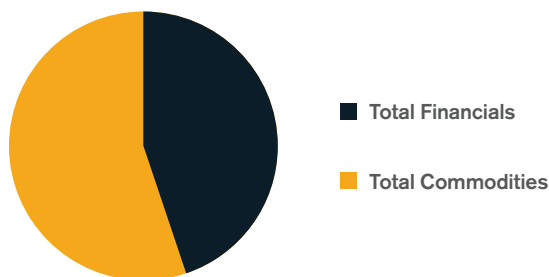
Commodity to Financial exposure was again reduced in May was not a surprise given the choppy atmosphere. While remaining commodity tilted, the spread quite balanced at 55% commodity.

Within commodities, the most notable shifts came from reducing Metals exposure across Palladium, Gold and Copper.

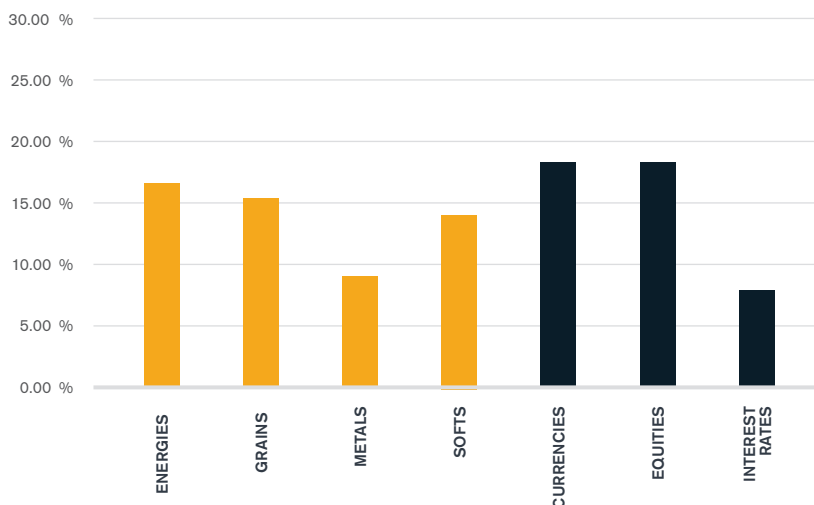
Within financials, increase in exposure came from Currencies across Swiss Franc, Euro and British Pound.

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 16.74%**

Largest Holdings	Position	% of Risk
RBOB Gasoline	Short	5.29%
Heating Oil	Short	4.68%
WTI Crude Oil	Short	3.88%

**GRAINS 15.21%**

Largest Holdings	Position	% of Risk
Soybeans	Short	8.13%
Wheat	Short	3.25%
Soybean Meal	Short	3.13%

**METALS 9.04%**

Largest Holdings	Position	% of Risk
Gold	Long	3.47%
Silver	Long	1.95%
Copper	Short	1.85%

**SOFTS 14.05%**

Largest Holdings	Position	% of Risk
Sugar #11	Short	8.09%
Coffee	Short	3.96%
Rubber	Short	1.42%

**CURRENCIES 18.56%**

Largest Holdings	Position	% of Risk
Euro	Long	7.15%
Swiss Franc	Long	4.27%
British Pound	Long	2.94%

**EQUITIES 18.59%**

Largest Holdings	Position	% of Risk
Hang Seng	Long	4.65%
DJ EuroStoxx 50	Long	3.27%
Nasdaq (USA)	Long	3.04%

**INTEREST RATES 7.82%**

Largest Holdings	Position	% of Risk
Treasury Note/10yr (USA)	Long	3.80%
Long Gilt (UK)	Long	2.53%
Treasury Bond/30yr (USA)	Long	0.84%

\* 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.

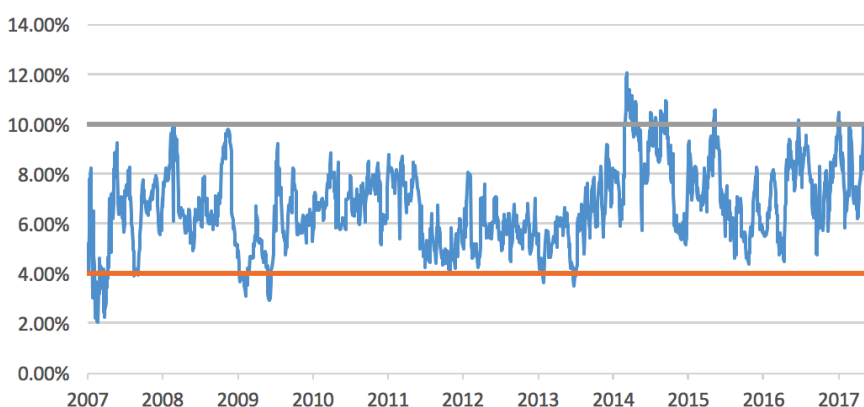
The strategy draws from all of Auspice's current research (the Auspice Building Blocks). The strategy is rooted in trend following but is our most active and evolving multi-strategy quantitative approach pulling together other complementary strategies and wrapping them in a rigorous risk and capital 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	1130.5219	-0.53%
NAV	Auspice Diversified Trust	
Class A	8.7977	-0.58%
Class F	9.1724	-0.49%
Class S	8.5835	-0.58%
Class H	10.0123	-0.50%
Class I	10.8332	-0.40%
Class X	10.4919	-0.49%

Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	2.22%	Avg Monthly Gain	2.81%
Annualized Std Dev	11.30%	Avg Monthly Loss	-2.07%
Largest Drawdown	-26.04%	Daily Std Dev	0.69%
Sharpe Ratio <sup>1</sup>	0.30	Daily VAR (sim w/99% conf)	-0.95%
MAR Index <sup>2</sup>	0.09	Round Turns per \$million	444
Sortino	0.56	Margin to Equity ratio	6.7
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	1.34
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	\$213M
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%	-0.53%								<b>-8.54%</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.

## 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 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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