



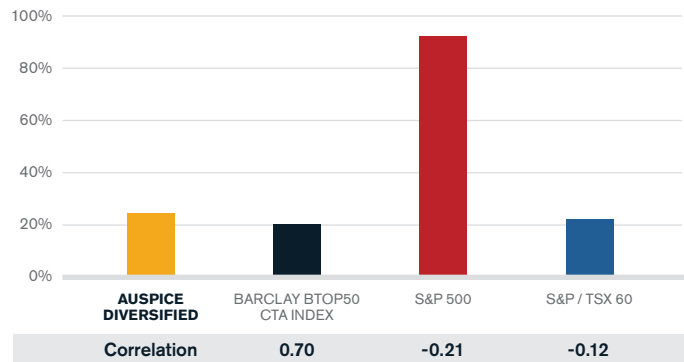
# DIVERSIFIED PROGRAM

COMMENTARY +  
PORTFOLIO FACTS

FEBRUARY 2018



## 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**

After a strong start to the year, the Auspice Diversified Program fell 5.81%. It was a challenging month for many trend following strategies - the benchmark Barclay BTOP50 CTA index fell a similar 5.69% while the SG CTA index was down 6.44% and the SG Trend Index off 8.96%. The long-term outperformance remains intact per Table 1 while Chart 1 illustrates the stronger gains at critical times of CTA performance.

After months of record equity gains and no corrections in years, the markets finally experienced a pull back and volatility. From its peak in late January, the S&P fell 12% and then spent the rest of the month grinding back up before ending on weak tone. The S&P ended off 3.9%. The resource tilted Canadian TSX/S&P60 added to January weakness losing 3.2%. Was the TSX indeed the canary in the coalmine?

Interest Rate futures rallied briefly in early month equity volatility only to resume their recent declines. New US Fed chair Powell has indicated as many as four rate increases in 2018. Despite the market weakness and rate concerns, the US Dollar managed to find a base and rally for the month vis-à-vis global currencies.

Commodity benchmarks were weak in February in what seemed to be a “risk-off” reaction to the early month global equity correction. The energy tilted GSCI fell 3.2% while the more diverse Bloomberg Commodity Index fell 1.9%.

**OUTLOOK**

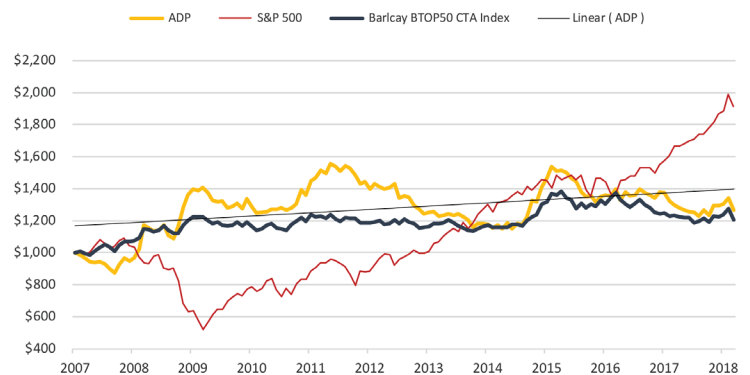
In one sense this was a frustrating month after a strong end to 2017 and solid start to 2018, yet we believe there is a very positive takeaway: volatility has increased.

While there is much debate about what caused the equity market correction, we believe the ultra-low volatility regime is likely in the past for now for both markets and the economy. As such, the chances of further and more frequent corrections is likely.

While guessing the direction of the markets from here may take a crystal ball, what our models and experience tells us is that while the trend was great, the risk of further corrections is greater at this time. The long-term trend is in question.

From an asset class perspective, we are now seeing flows into commodity products as asset rotation and inflation protection becomes a more immediate goal along with the comfort of reduced equity risk.

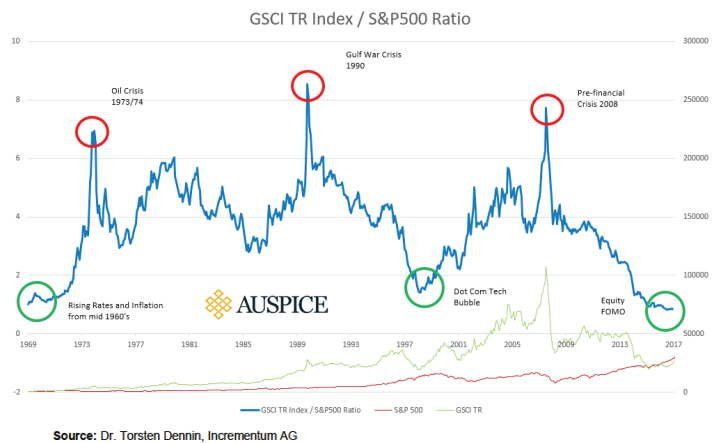
**Chart 1 HISTORICAL GROWTH OF \$1000 INVESTMENT**



**Table 1 ABSOLUTE PERFORMANCE**

	Auspice Diversified (2/20 fees)	Barclay BTOP50 CTA Index	S&P 500	TSX 60
1 Month	<b>-5.81%</b>	-5.69%	-3.89%	-3.23
2018 YTD	<b>-2.87%</b>	-2.86%	1.50%	-4.77%
1 yr (Mar 17)	<b>-2.70%</b>	-2.83%	14.82%	0.70%
3 yr (Mar 15)	<b>-16.15%</b>	-11.80%	28.95%	2.64%
5 yr (Mar 13)	<b>2.83%</b>	1.51%	79.17%	23.74%
10 yr (Mar 08)	<b>7.84%</b>	4.64%	103.95%	14.92%
Annualized (Jan 07)				
Return	<b>2.12%</b>	1.65%	5.98%	1.87%
Std Deviation	<b>11.27%</b>	6.66%	14.68%	12.80%
Sharpe Ratio	<b>0.29</b>	0.28	0.52	0.25
MAR Ratio	<b>0.08</b>	0.12	0.11	0.04
Worst Drawdown	<b>-26.04%</b>	-14.08%	-52.56%	-44.27%

**GSCI/S&P500 RATIO: EQUITIES EXPENSIVE, COMMODITIES CHEAP?**



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

**ATTRIBUTIONS AND TRADES**

While it would seem obvious to blame trend follower's losses in February on holding equity exposure, and in some cases it may be the culprit, it was not the only sector to correct sharply. Beyond equities, sharp reversals occurred in both commodity and financial sectors – a real “risk-off” environment.

For Auspice, we came into the month reducing equity exposure and having covered the short VIX exposure. Less than 12% of our risk was in this sector. Further, we went long the VIX as it expanded and rode it up to the mid 20's where we took profits after its largest 1 day move ever. We further exited the remaining long equity index exposure in the early days of the month. Modest loss after a long period of gains illustrating a fantastic agility. We currently hold no equity related exposures.

The real challenge was other sectors correcting within long term trends, such as Energy or Currencies, or sectors making significant reversal in core trend, such as Grains.

Within Energies, we have substantially reduced exposures, taking profits across the sector yet remaining long.

Within Grains, we have exited all Grain shorts and tilted long across Corn, Soybeans, Wheat. From being tilted short to long, the strength of the trends allowed agile reversal of losses to be covered and profits made in a short period of time.

**Return Drivers:** Trend following strategies struggled the most during the month yet there was no help from the Short Term or Mean Reversion (see Chart 3).

**POSITION HIGHLIGHTS**

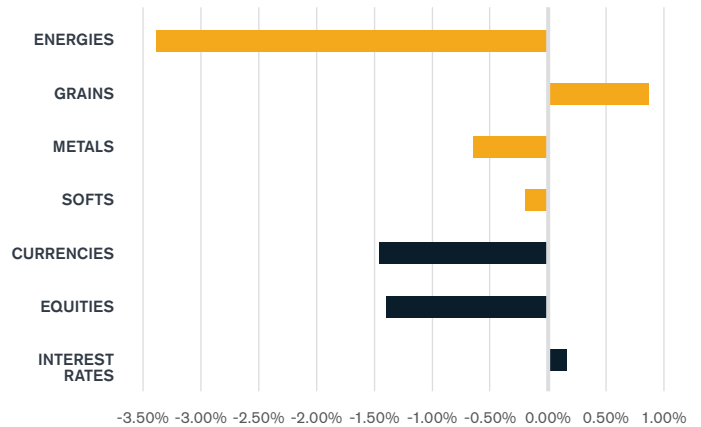
**GAINS**

- Long VIX was covered quickly as gains and volatility expanded very rapidly.
- Long Soybean Meal added mid month.
- Short US 30 year Bond.

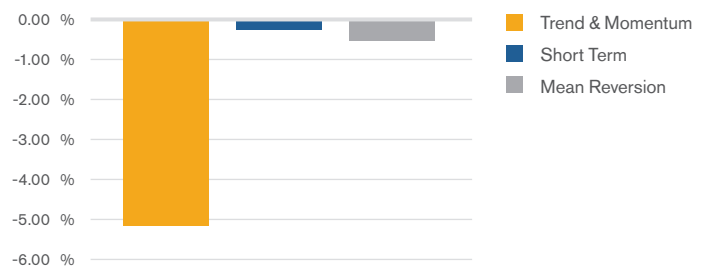
**LOSSES**

- Long WTI Crude oil, reduced exposure.
- Zinc corrected, remain long.
- British Pound long exposure was reduced on weakness.

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION



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



\* Strategy Attribution excludes all fees.

**EXPOSURE AND RISK ALLOCATION**

Commodity exposure increased as we exited all equity risk. The current ratio is 76:24 from 61:39 last month per Chart 4.

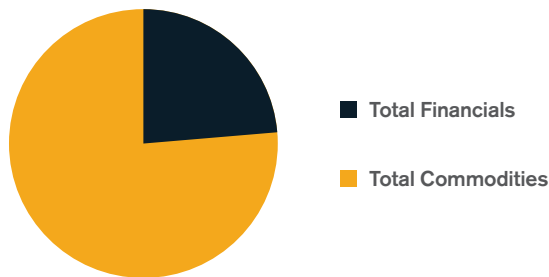
Within commodities, the most notable changes were decreases in Energies and increasing Grain long exposure.

In financials, changes came from reducing Equity and currency risks while adding to Rates.

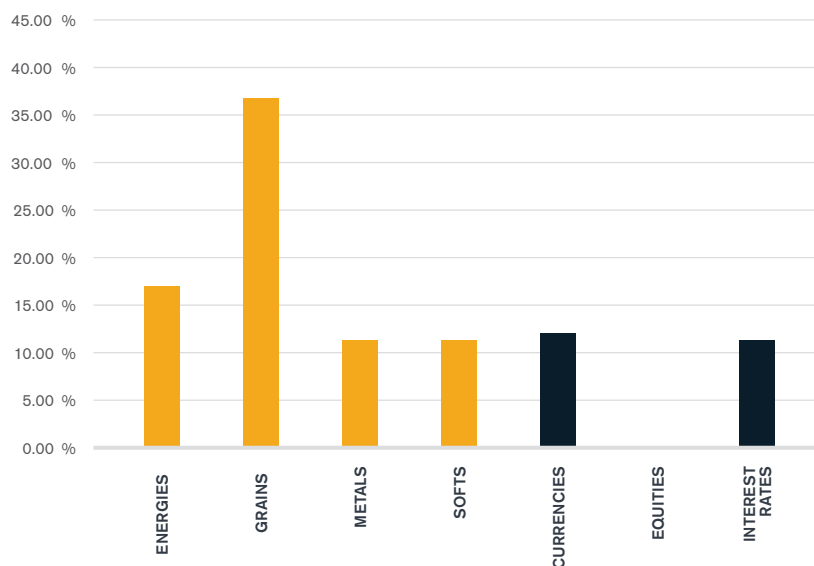
Portfolio exposure has shifted from the high end of our typical band last month to an average level at 6.5% as measured by the Margin to Equity ratio (see Chart 6 next page).

**CURRENT RISK BY SECTOR**

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE



**Chart 5** CURRENT SECTOR RISK



**ENERGIES 16.46%**

Largest Holdings	Position	% of Risk
WTI Crude Oil	Long	5.06%
Natural Gas	Short	4.36%
Gasoline	Long	3.60%

**GRAINS 36.87%**

Largest Holdings	Position	% of Risk
Corn	Long	12.33%
Soybeans	Long	11.76%
Soybeans Meal	Long	7.21%

**METALS 11.33%**

Largest Holdings	Position	% of Risk
Zinc	Long	4.97%
Silver	Short	1.88%
Copper	Long	1.75%

**SOFTS 11.56%**

Largest Holdings	Position	% of Risk
Cotton	Long	5.06%
Sugar #11	Short	4.05%
Coffee	Short	1.85%

**CURRENCIES 12.31%**

Largest Holdings	Position	% of Risk
Japanese Yen	Long	6.33%
Swiss Franc	Long	1.40%
Euro	Long	1.25%

**EQUITIES 0.00%**

Largest Holdings	Position	% of Risk

**INTEREST RATES 11.47%**

Largest Holdings	Position	% of Risk
Treasury Bond/30yr (USA)	Short	4.52%
Treasury Note/10yr (USA)	Short	3.82%
Long Gilt (UK)	Short	2.24%

\* 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.

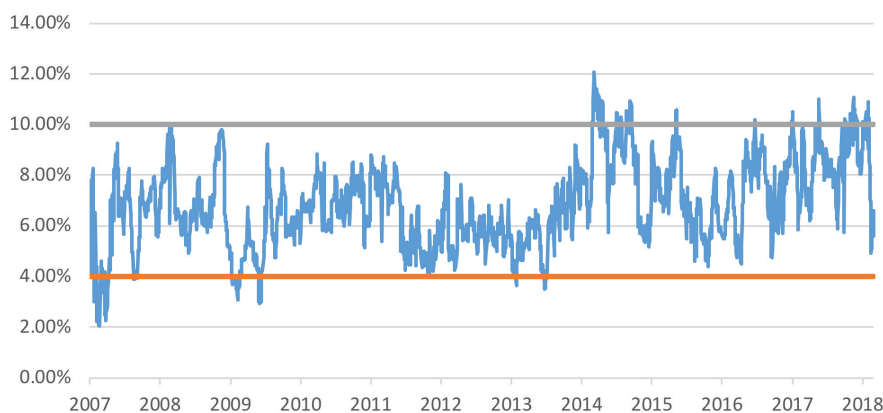
With a long term correlation of -0.24 to the S&P (see front page), and a modest 0.68 correlation to the SG CTA Index (1 year basis - daily returns), this demonstrates the combined performance and non-correlation to equity and other CTAs is accretive and valuable.

### 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	1136.7894	-5.81%
NAV	Auspice Diversified Trust	
Class A	8.8184	-5.85%
Class F	9.2659	-5.74%
Class S	8.6039	-5.85%
Class I	11.0316	-5.68%
Class X	10.6004	-5.76%

Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	2.12%	Avg Monthly Gain	2.82%
Annualized Std Dev	11.27%	Avg Monthly Loss	-2.08%
Largest Drawdown	-26.04%	Daily Std Dev	0.68%
Sharpe Ratio <sup>1</sup>	0.29	Daily VAR (sim w/99% conf)	-1.39%
MAR Index <sup>2</sup>	0.08	Round Turns per \$million	450
Sortino	0.52	Margin to Equity ratio	6.8
Upside/Downside Deviation	0.15 / 0.05	Average Hold Period (Days)	23
Correlation to S&P 500	-0.21	% Profitable	43%
Correlation to TSX60	-0.12	\$Win / \$Loss	1.3
Correlation to BCOM ER	0.06	Skew	1.17

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	\$176M
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
2018	3.12%	-5.81%											<b>-2.87%</b>
2017	-3.66%	-1.89%	-1.35%	-1.39%	-0.53%	-0.51%	-1.61%	2.76%	-2.53%	5.16%	-0.27%	0.67%	<b>-5.31%</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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