



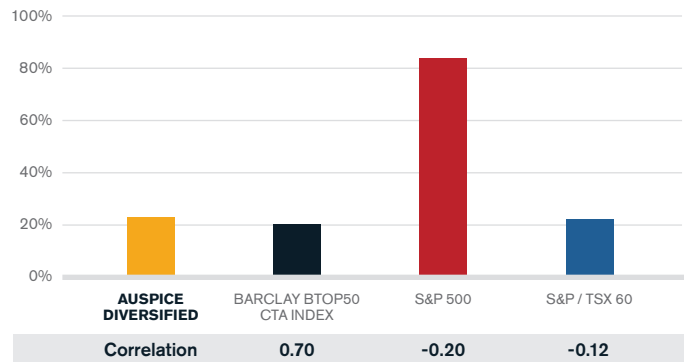
# DIVERSIFIED PROGRAM

COMMENTARY +  
PORTFOLIO FACTS

MARCH 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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Silver Medal  
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**SUMMARY**

The Auspice Diversified Program corrected 2.27% while the benchmark Barclay BTOP50 CTA index was flat at an estimated 0.05%. While underperforming recently, the long-term outperformance remains intact per Table 1 while Chart 1 illustrates the stronger gains at critical times of CTA performance.

Global equities started strong before falling back in the second half of the month, most to near the February lows. The S&P and Nasdaq ended off 2.7% and 2.9% respectively while the MSCI World fell 2.4% for reference. The resource tilted Canadian TSX/S&P60 lost 0.5% to be down 5.3% for the year – weakest among benchmarks..

Interest Rate futures rallied for the month against the long-term downtrend and despite the US Fed raising rates 0.25% while signaling further rate increases in 2018. Currencies consolidated and the US Dollar managed to stabilize.

Commodity benchmarks produced mixed results as strength in Energy led the energy tilted GSCI to gain 2.1% while the more diverse Bloomberg Commodity Index fell 0.8% on the month.

**OUTLOOK**

Note previous periods of equity weakness and Auspice performance started with a similar correction. While frustrating that the strategy, despite exiting long exposures by early February, had losses at same time as equity markets. We want to reassure investors this is unrelated. Historically, Auspice returns are not only uncorrelated but negatively correlated at key times – yet there are short periods of time they “appear” similar. It is coincidental and part of being “non-correlated” overall.

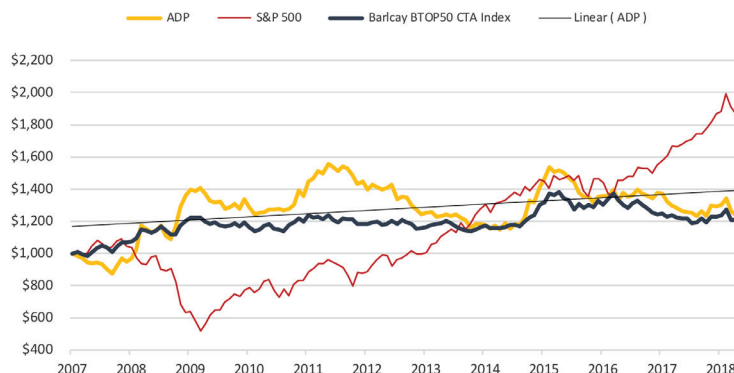
The move from almost no volatility towards average feels significant and this volatility persists across many asset classes.

Given this can bring about sharp reversals and changes in trend, it is important to be patient given the strategy is not designed to target the capture of brief corrections, rather it targets medium to long term trends regardless of direction. The role of the program is to perform well on sustained downtrends in equity coupled with increased volatility and thus protect portfolio assets at key times in addition to absolute returns.

From an asset class perspective, we are now seeing flows into commodity products as asset rotation and inflation protection becomes relevant along with the comfort of no material long equity trend risk and a potential shift to short equities.

While concerning to many investors, the increase in volatility is our domain of experience. This is indeed the right time to have this exposure.

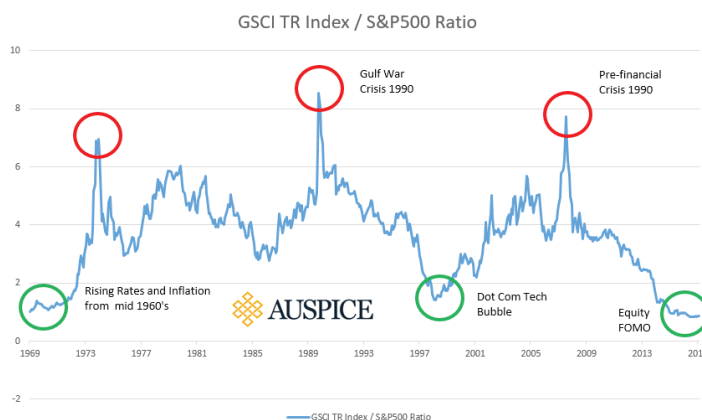
**Chart 1 HISTORICAL GROWTH OF \$1000 INVESTMENT**



**Table 1 ABSOLUTE PERFORMANCE**

	Auspice Diversified (2/20 fees)	Barclay BTOP50 CTA Index	S&P 500	TSX 60
1 Month	-2.27%	0.05%	-2.69%	-0.54%
2018 YTD	-5.08%	-2.44%	-1.22%	-5.28%
1 yr (Apr 17)	-3.61%	-1.49%	11.77%	-0.72%
3 yr (Apr 15)	-18.44%	-12.69%	27.71%	4.57%
5 yr (Apr 13)	0.21%	1.72%	69.05%	24.75%
10 yr (Apr 08)	7.23%	5.35%	99.66%	16.03%
Annualized (Jan 07)				
Return	1.90%	1.68%	5.68%	1.81%
Std Deviation	11.25%	6.61%	14.66%	12.80%
Sharpe Ratio	0.27	0.28	0.50	0.25
MAR Ratio	0.07	0.12	0.11	0.04
Worst Drawdown	-26.04%	-14.08%	-52.56%	-44.27%

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



Source: Dr. Torsten Dennen, Incrementum AG

**ATTRIBUTIONS AND TRADES**

Energy markets bounced back after the “risk-off” environment of February moderated for the time being. Gains were led by WTI And Brent Crude Oils and Heating oil despite risk reduction last month.

Grains were the weakest sector as added exposure early in the month was met with weakness during the month. Grains will be a sector to watch closely as the sector is in trend transition and added volatility typically comes with it.

Metals struggled as short term weakness in Industrial Metals went against long trades while recent strength in Precious Metals went against shorts.

Lastly, but not least important, we have shifted to short trend in Equities in a modest way for the first time in years with the Nikkei Japanese equity market. Small short term mean reversion trades were entered from the long side but were largely exited on weakness to start the new month highlighting a developing short trend. Further weakness could have us add quickly and will be an area to monitor carefully.

**Return Drivers:** Short Term (non-trend) strategies provided an offset to the core Trend following strategies which struggled during the month (see Chart 3). Modest Mean Reversion trades were attempted in the Equity sector, but additional weakness persisted.

**POSITION HIGHLIGHTS**

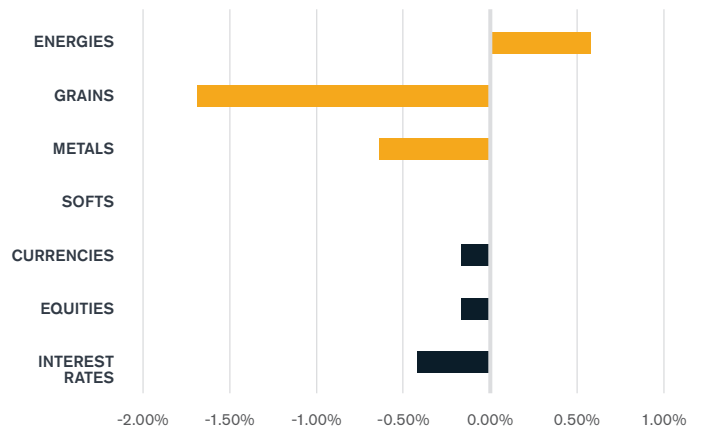
**GAINS**

- Long Brent Crude Oil as petroleum Energies bounced back.
- Short Sugar continues to payoff.
- Short Coffee continued to slide lower.

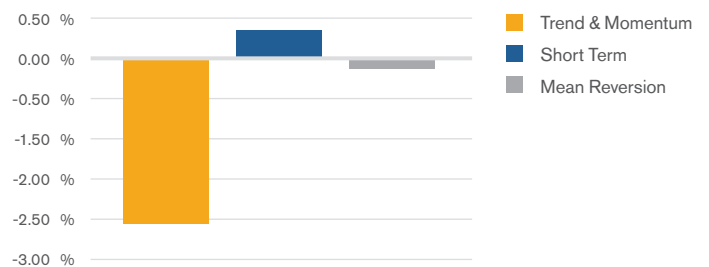
**LOSSES**

- Reversed shorts in Wheat to shift to long exposure only to quickly reverse.
- Zinc continued to correct – exited to capture gains.
- Cotton corrected lower and position size was reduced – remains profitable.

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION



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



\* Strategy Attribution excludes all fees.

**EXPOSURE AND RISK ALLOCATION**

Commodity exposure increased slightly versus Financial exposure. The current ratio is 79:21 from 76:24 last month per Chart 4.

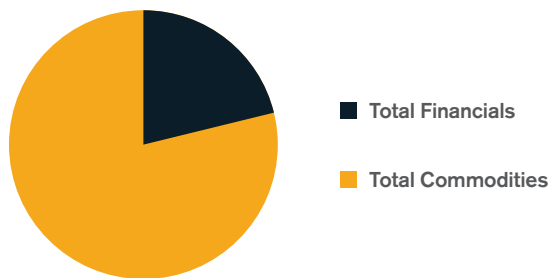
Within commodities, the most notable changes were decreases in Grains and increasing Soft Commodity exposure.

Added Soft Commodity risk comes from mark to market (unrealized) gains in Sugar and Coffee as those markets slid lower together.

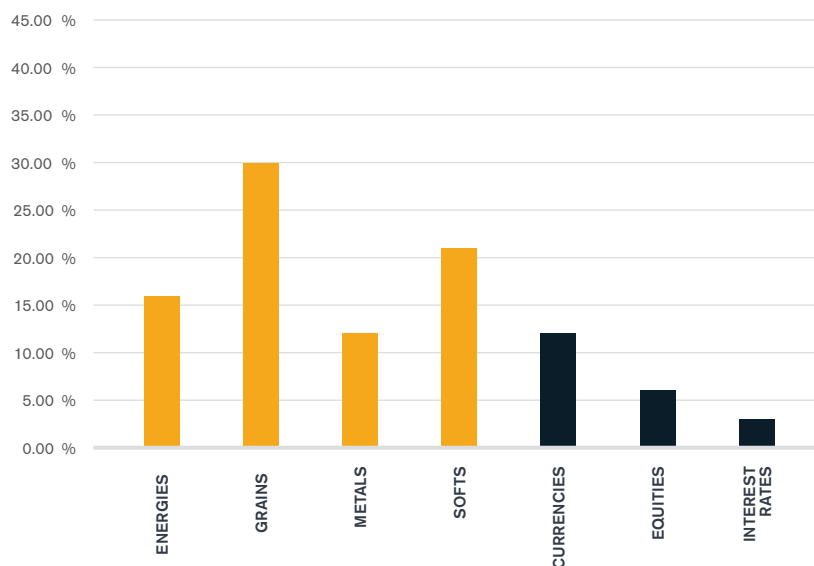
In financials, changes came from reducing Interest Rate exposure further tilting the balance.

Portfolio exposure has shifted to the low end of historical exposure at 4% from an average level last month at 6.5% as measured by the Margin to Equity ratio (see Chart 6 next page). This is exciting as it highlights we have reduced risk in a choppy volatility and are able to deploy capital as trends develop.

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE



**Chart 5** CURRENT SECTOR RISK



**CURRENT RISK BY SECTOR**

**ENERGIES 15.58%**

Largest Holdings	Position	% of Risk
WTI Crude Oil	Long	5.70%
Natural Gas	Short	5.43%
Heating Oil	Long	2.59%

**GRAINS 29.93%**

Largest Holdings	Position	% of Risk
Soybeans	Long	12.57%
Soybean Meal	Long	9.03%
Corn	Long	7.04%

**METALS 12.20%**

Largest Holdings	Position	% of Risk
Copper	Short	5.79%
Silver	Short	2.75%
Gold	Short	1.79%

**SOFTS 21.11%**

Largest Holdings	Position	% of Risk
Sugar #11	Short	10.35%
Cotton	Long	5.27%
Coffee	Short	3.10%

**CURRENCIES 12.35%**

Largest Holdings	Position	% of Risk
Canadian Dollar	Short	4.77%
Japanese Yen	Long	3.27%
US Dollar Index	Short	1.55%

**EQUITIES 6.04%**

Largest Holdings	Position	% of Risk
NASDAQ 100 (US)	Long	2.12%
Russell 2000 (US)	Long	1.84%
Nikkei (Japan)	Short	0.45%

**INTEREST RATES 2.81%**

Largest Holdings	Position	% of Risk
Treasury Bond/30yr (USA)	Short	1.28%
Treasury Note/5yr (USA)	Short	0.89%
Treasury Note/10yr (USA)	Short	0.64%

\* 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.

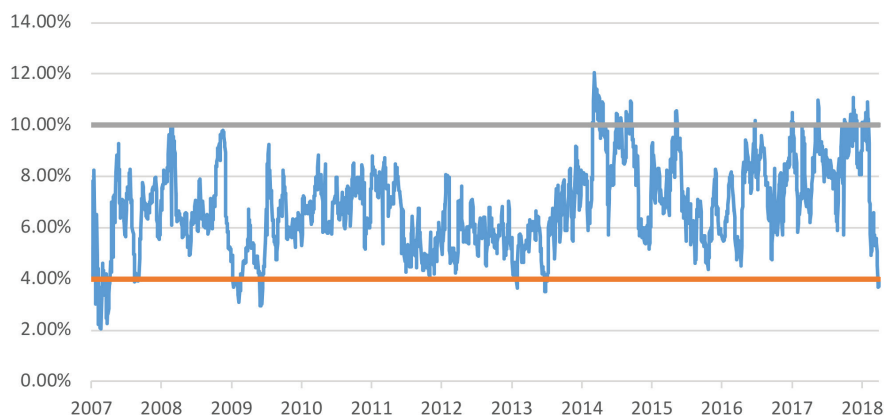
With a long term correlation of -0.20 to the S&P (see front page), and a modest 0.70 correlation to the SG CTA Index (1 year basis - daily returns), this demonstrates the combined performance and non-correlation to equity and other CTAs is accretive and valuable.

### 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	1110.9394	-2.27%
NAV	Auspice Diversified Trust	
Class A	8.6131	-2.33%
Class F	9.0581	-2.24%
Class S	8.4037	-2.33%
Class I	10.7942	-2.15%
Class X	10.3629	-2.24%

Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	1.90%	Avg Monthly Gain	2.82%
Annualized Std Dev	11.25%	Avg Monthly Loss	-2.10%
Largest Drawdown	-26.04%	Daily Std Dev	0.68%
Sharpe Ratio <sup>1</sup>	0.27	Daily VAR (sim w/99% conf)	-0.76%
MAR Index <sup>2</sup>	0.07	Round Turns per \$million	450
Sortino	0.48	Margin to Equity ratio	6.8
Upside/Downside Deviation	0.15 / 0.05	Average Hold Period (Days)	23
Correlation to S&P 500	-0.20	% Profitable	43%
Correlation to TSX60	-0.12	\$Win / \$Loss	1.3
Correlation to BCOM ER	0.06	Skew	1.18

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	\$167M
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%	-2.27%										<b>-5.08%</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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