AUSPICE

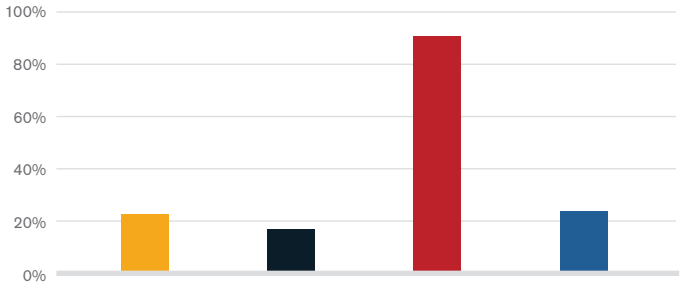
# DIVERSIFIED PROGRAM

## COMMENTARY + PORTFOLIO FACTS

**JANUARY 2019**

### CUMULATIVE PERFORMANCE

( SINCE JANUARY 2007* )




| | AUSPICE DIVERSIFIED | BARCLAY BTOP50 CTA INDEX | S&P 500 | S&P / TSX 60 |
|---|---|---|---|---|
| Correlation | | 0.69 | -0.18 | -0.11 |

*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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AUSPICE **DIVERSIFIED PROGRAM**

# COMMENTARY + PORTFOLIO FACTS

**JANUARY 2019**

## SUMMARY

Auspice Diversified Program fell 4.14% in January. While the strategy left 2018 outperforming benchmarks for the year and on a long-term basis (5 and 12 year in Table 1), 2019 started with underperformance. Auspice remains ahead of benchmarks long-term while Chart 1 illustrates the history of stronger gains at critical times of CTA performance.

Global equity markets rallied in January but remain down over the last two months with a massive drawdown of 10 to 17% in between. The S&P added 7.87%, Nasdaq gained 8.26% while the MSCI World added 7.68%. The resource tilted Canadian TSX/S&P60 added 8.14% and the only market not down over the two months.

Commodities moved higher during January. While oil received the bulk of the attention the rally was widespread across most commodity sectors. Commodity benchmarks rallied back after sharp pullbacks in December yet are flat to down 2% looking over the two months. The energy weighted GSCI gained 8.76% while the more diverse Bloomberg Commodity index added 5.23%.

After the strong rally in bond futures during December, most markets sold off slightly (higher rates). The US dollar was weaker, yet the trend remains up and intact from much of 2018 while the Pound did the opposite on Brexit volatility. Commodity currencies such as Aussie and Canadian dollars moved up.

## OUTLOOK

Although equities made a courageous jump back to life after sharp losses ending 2018, we think this is a sign of further volatility to come. While a loss to start the year, the volatility that is upon us across many sectors affirms our belief that we are entering period that holds significant opportunity for the agility of the flagship Auspice Diversified program.

To reiterate - we believe this is likely just the beginning of an extended period of opportunity. We have finally seen volatility rise to a more “normal” level and it encompasses assets beyond just equities in commodities, currencies and interest rates. This is an environment when more opportunity exists, our quantitative risk-management shines and volatility is advantageous for Auspice.

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

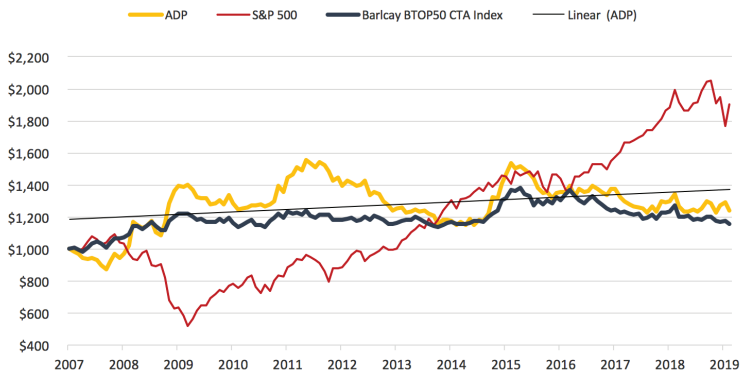
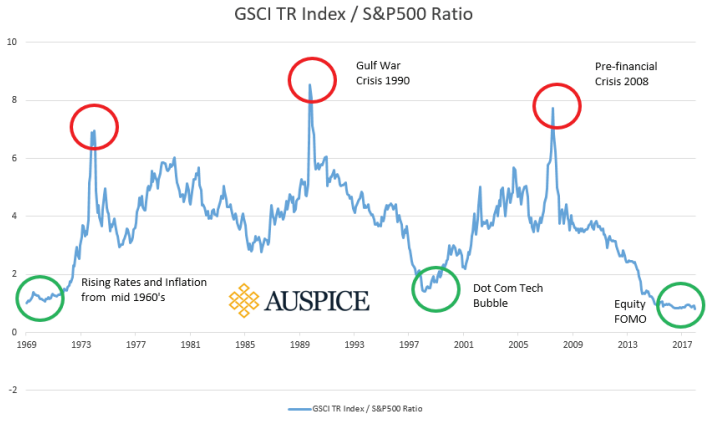



**Table 1** ABSOLUTE PERFORMANCE

| | Auspice Diversified (2/20 fees) | Barclay BTOP50 CTA Index | S&P 500 | TSX 60 |
|---|---|---|---|---|
| 1 Month | **-4.14%** | -2.06% | 7.87% | 8.14% |
| 2019 YTD | **-4.14%** | -2.06% | 7.87% | 8.14% |
| 1 yr (Feb 18) | **-7.61%** | -9.36% | -4.24% | -1.61% |
| 3 yr (Feb 16) | **-8.55%** | -13.97% | 39.37% | 23.10% |
| 5 yr (Feb 14) | **7.51%** | -0.52% | 51.70% | 18.30% |
| 12 yr (Feb 07) | **25.81%** | 14.17% | 88.01% | 24.32% |
| Annualized (Jan 07) | | | | |
| Return | **1.80%** | 1.20% | 5.49% | 1.87% |
| Std Deviation | **11.14%** | 6.52% | 14.78% | 12.84% |
| Sharpe Ratio | **0.25** | 0.21 | 0.48 | 0.25 |
| MAR Ratio | **0.07** | 0.07 | 0.10 | 0.04 |
| Worst Drawdown | **-26.04%** | -16.43% | -52.56% | -44.27% |

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




**Source:** Dr. Torsten Dennin, Incrementum AG

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## ATTRIBUTIONS AND TRADES

As illustrated in Chart 2, after a strong performance to end 2018, most sectors corrected against core trends led by Energies as well as Currencies and Equities.

Within Energies, we again resized and reduced exposures in short petroleum markets.

Metals provided positive offsetting performance led by Precious metals exposures including newly added Silver while Copper had a small loss and remains in short trend.

Continued strength in the Yen had the portfolio shift to long early in the month. The remaining exposures were largely unchanged with small losses across the sector as short currencies strengthened slightly vis-à-vis long the US Dollar.

Lastly, given the strength of the move back in the Equity markets, we have exited shorts to protect recent gains. The only remaining short is in the Japanese Nikkei.

**Return Drivers:** Both trend strategies and non-correlated Short-Term strategies struggled for the month (see Chart 3).

**Chart 2** SECTOR PNL MONTHLY ATTRIBUTION

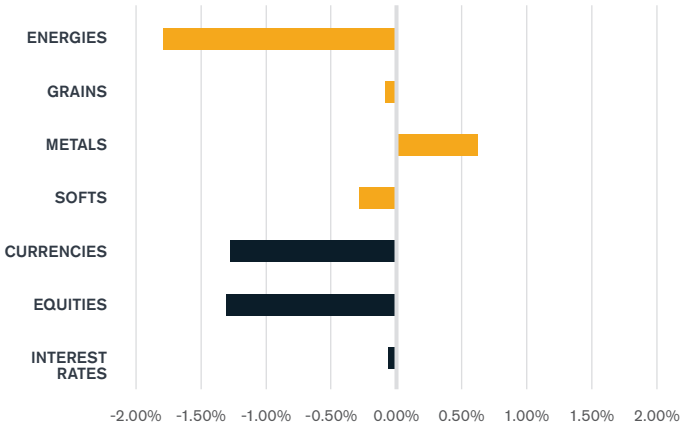
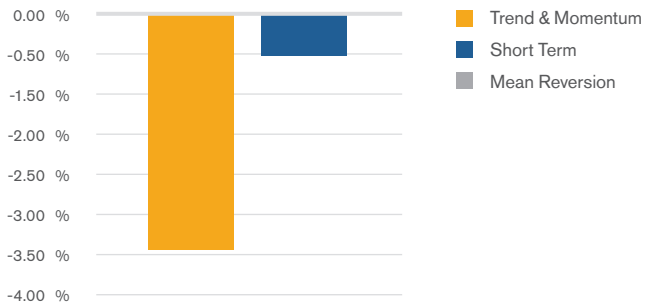



**Chart 3** STRATEGY (RETURN DRIVER) ATTRIBUTION




* Strategy Attribution excludes all fees.

## POSITION HIGHLIGHTS

### GAINS

- Long Precious metals in Gold, Silver, Palladium.
- Long Sugar.
- Long US 10 year Note futures.

### LOSSES

- Short petroleum energy markets including WTI Crude Oil and Heating Oil.
- Reversal of long VIX, exited.
- Rally in Canadian dollar reversed bulk of short exposure.

# COMMENTARY + PORTFOLIO FACTS



## EXPOSURE AND RISK ALLOCATION

Commodity to Financial exposure increased commodity to 69:31 from 55:45 last month per Chart 4.

Within commodities, the most notable changes were increases in Metals while slightly reducing Energies and Grains. Within Financials, reductions in Equity and Currencies were offset by a gain in Rate futures.

Portfolio exposure ended the month at 4.9% while the historical average level is 6.8% as measured by the Margin to Equity ratio (see Chart 6 next page).

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE

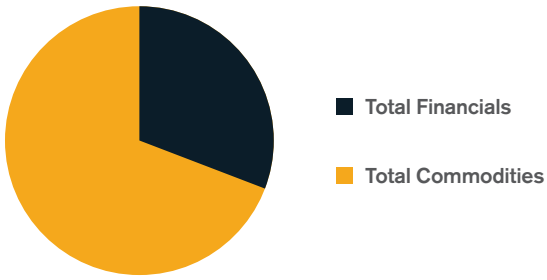
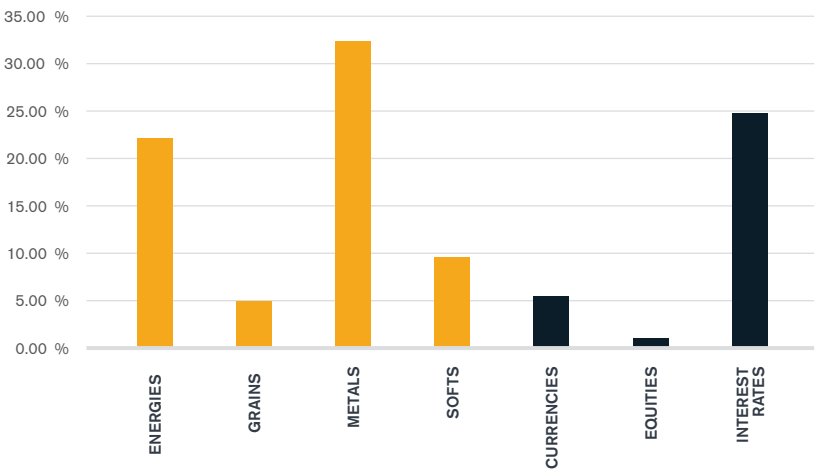



**Chart 5** CURRENT SECTOR RISK




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

## CURRENT RISK BY SECTOR

**ENERGIES** **22.37%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| WTI Crude Oil | Short | 7.54% |
| Heating Oil | Short | 7.37% |
| Gasoline | Short | 6.47% |

**GRAINS** **4.90%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Canola | Short | 1.92% |
| Wheat | Short | 1.52% |
| Corn | Short | 0.86% |

**METALS** **32.14%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Gold | Long | 16.17% |
| Silver | Long | 11.39% |
| Palladium | Long | 3.33% |

**SOFTS** **9.77%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Cotton | Short | 6.69% |
| Sugar #11 | Long | 3.08% |

**CURRENCIES** **5.37%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Japanese Yen | Long | 3.16% |
| Euro | Short | 0.99% |
| US Dollar Index | Long | 0.38% |

**EQUITIES** **0.73%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Nikkei (Japan) | Short | 0.73% |

**INTEREST RATES** **24.74%**

| Largest Holdings | Position | % of Risk |
|---|---|---|
| Treasury Bond/30yr (USA) | Long | 15.41% |
| Treasury Note/10yr (USA) | Long | 7.24% |
| Euro Schatz 2yr | Long | 1.12% |

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**JANUARY 2019**

## 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 -0.18 to the S&P (see front page), and a modest 0.66 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)

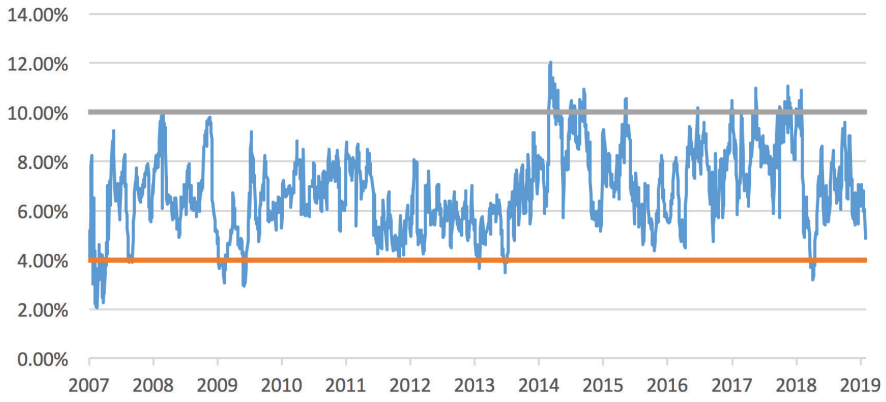


**Table 3** NAVS

| NAV | Auspice Managed Futures LP* | | |
|---|---|---|---|
| LP | | MTD | YTD |
| Series 1 | 1114.8574 | -4.14% | -4.14% |
| **NAV** | **Auspice Diversified Trust** | | |
| Class A | 8.5851 | -4.21% | -4.21% |
| Class F | 9.1061 | -4.12% | -4.12% |
| Class S | 8.3770 | -4.21% | -4.21% |
| Class I | 10.9499 | -4.03% | -4.03% |
| Class X | 10.4208 | -4.12% | -4.12% |

| Program Statistics (from Jan 2007) | | Trade Statistics | |
|---|---|---|---|
| Annualized Return | 1.80% | Avg Monthly Gain | 2.79% |
| Annualized Std Dev | 11.14% | Avg Monthly Loss | -2.10% |
| Largest Drawdown | -26.04% | Daily Std Dev | 0.68% |
| Sharpe Ratio[1] | 0.25 | Daily VAR (sim w/99% conf) | -0.84% |
| MAR Index[2] | 0.07 | Round Turns per $million | 500 |
| Sortino | 0.45 | Margin to Equity ratio | 6.81 |
| Upside/Downside Deviation | 0.15 / 0.05 | Average Hold Period (Days) | 64 |
| Correlation to S&P 500 | -0.18 | % Profitable | 40% |
| Correlation to TSX60 | -0.11 | $Win / $Loss | 1.49 |
| Correlation to BCOM ER | 0.04 | Skew | 1.11 |

| 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 | $250MM |
| 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.

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## FUND FACTS (CONT)

### MONTHLY PERFORMANCE TABLE*

| YEAR | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | -4.14% | | | | | | | | | | | | **-4.14%** |
| 2018 | 3.12% | -5.81% | -2.27% | -0.19% | 1.41% | -1.48% | 1.89% | 3.57% | -0.84% | -4.75% | 3.66% | 1.64% | **-0.61%** |
| 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% | **-5.31%** |
| 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% | **1.15%** |
| 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% | **-7.47%** |
| 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% | **24.76%** |
| 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% | **-6.01%** |
| 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% | **-10.24%** |
| 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% | **-3.66%** |
| 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% | **12.53%** |
| 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% | **-7.93%** |
| 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% | **44.30%** |
| 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% | **-3.11%** |

* Returns represent the oldest series of Auspice Managed Futures LP, Series 1 (2% management and 20% performance fee), and based in Canadian Dollars (CAD). 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 and based in Canadian Dollars (CAD).

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 **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 CTA indexes do not encompass the whole universe of CTAs. The CTAs that comprise the indices have submitted their information voluntarily and the performance has not been verified by the index publisher.

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.

## 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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