



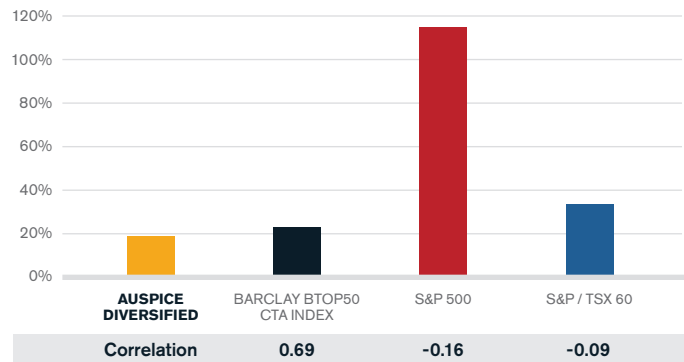
# DIVERSIFIED PROGRAM

COMMENTARY +  
PORTFOLIO FACTS

OCTOBER 2019



## 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 corrected in October, softening by 1.33%. Despite the month, Chart 1 illustrates there is a history of stronger gains at critical times while performing alongside benchmarks long-term. As such, we believe it is an opportune time to include this important tool.

Global equity markets moved higher despite another US Fed interest rate cut in October. Rhetoric surrounding global growth and trade wars remain a worry, yet many equity markets are making new all-time highs, shaking this off. The S&P added 2.04% while the Nasdaq jumped 3.66% and the MSCI World gained 2.45%. The resource tilted Canadian TSX/S&P60 softened by 1.16% as the TSX Energy sub-index fell 10.40%.

Commodities found a stronger tone led by many Ag markets including Grains. Both precious and base metals also moved higher. The energy weighted GSCI gained 1.10% while the more diverse Bloomberg Commodity index added 1.87%. The Auspice Broad Commodity tactical index also gained 1.17%.

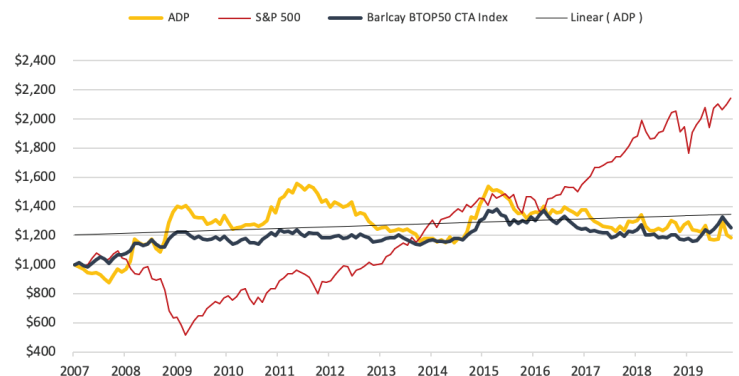
Bond futures remained volatile and sold-off after rallying last month. The US dollar weakened against most global currencies while the Japanese Yen continued to weaken.

**OUTLOOK**

The equity market continues to amaze most market participants, often called “the most hated equity rally in history”, it cannot be ignored. However, we have been through these types of rallies and dislocations before.

While things never play out the same way, we do know that timing the market turn is very difficult. It is hard to say what the catalyst will be. As such, the role of this strategy is providing an unfaltering diversification tool that has the ability to add value at a critical time. The strategy did this as recently as August and in 2018 as equities reversed quickly and sharply catching most off-guard.

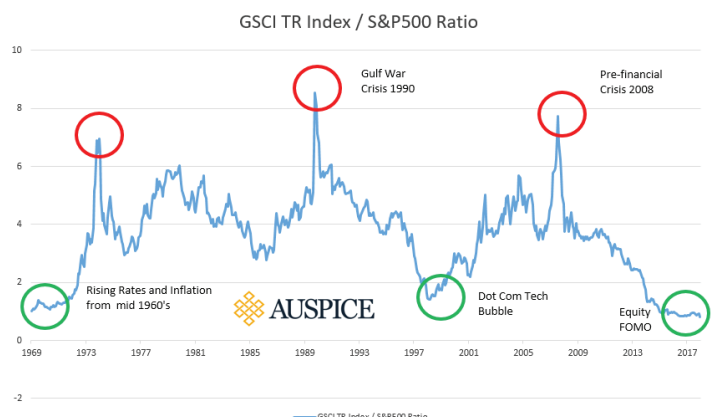
**Chart 1 HISTORICAL GROWTH OF \$1000 INVESTMENT**



**Table 1 ABSOLUTE PERFORMANCE**

	Auspice Diversified (2/20 fees)	Barclay BTOP50 CTA Index	S&P 500	TSX 60
1 Month	-1.33%	-2.58%	2.04%	-1.16%
2019 YTD	-8.29%	6.38%	21.17%	14.78%
1 yr (Nov 18)	-3.34%	6.68%	12.02%	10.19%
3 yr (Nov 16)	-11.47%	0.23%	42.87%	13.58%
5 yr (Nov 14)	-9.86%	1.33%	50.52%	16.11%
10 yr (Nov 09)	-7.03%	7.29%	193.15%	52.28%
12 yr (Nov 07)	22.63%	17.31%	96.05%	16.20%
Annualized (Jan 07)				
Return	1.34%	1.78%	6.12%	2.24%
Std Deviation	11.65%	6.70%	14.66%	12.57%
Sharpe Ratio	0.20	0.30	0.53	0.28
MAR Ratio	0.05	0.11	0.12	0.05
Worst Drawdown	-26.04%	-16.11%	-52.56%	-44.27%

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



Source: Dr. Torsten Dennen, Incrementum AG

## ATTRIBUTIONS AND TRADES

The ongoing UK Brexit drama had the Euro and Pound strengthen, highlighting a challenging and choppy currency market overall. The program was generally quiet while corrections in currencies accounted for the bulk of the portfolio loss. Currency strength versus a correcting US Dollar had the program adjust a number of positions. Both Aussie Dollars and the Euro were covered while the weakening Japanese Yen was entered from the short side while the Pound was added to long exposures.

Within commodities, a number of shorts were covered. Much of the Cotton exposure was covered as it rallied almost 6% against shorts, causing us to cover most of this profitable trade that had some of the exposure held since 2018. Zinc and Coffee were also covered.

While energies also rallied against shorts, most positions were held. The petroleum side of the market is generally consolidating with a slight bid tone recently.

The portfolio added to various global long equity index positions as the market continued to move higher.

**Return Drivers:** Both trend following strategies and the non-correlated short-term strategies corrected in October (see Chart 3).

## POSITION HIGHLIGHTS

### GAINS

- Long Japanese Nikkei equity index.
- Silver led Metals gains along with Gold.
- Long Palladium was the top performing market in the portfolio.

### LOSSES

- Shorts in Aussie Dollar and the Euro were exited.
- Cotton rallied against shorts.
- A new short in Coffee was entered and covered.

Chart 2 SECTOR PNL MONTHLY ATTRIBUTION

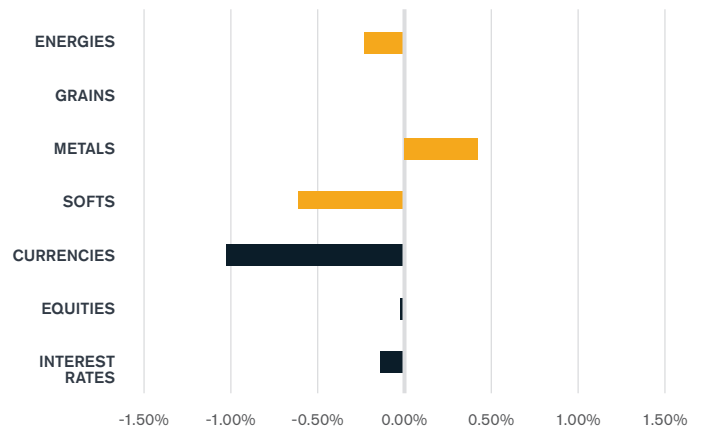
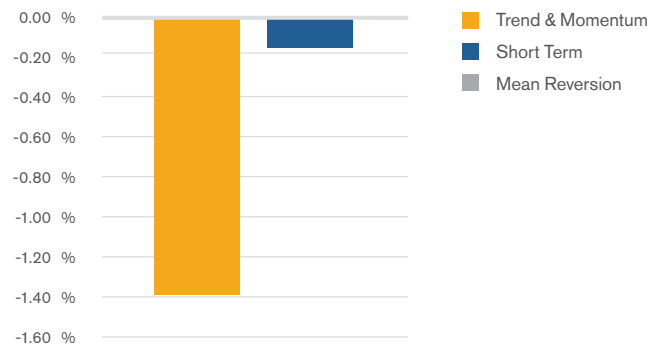


Chart 3 STRATEGY (RETURN DRIVER) ATTRIBUTION



\* Strategy Attribution excludes all fees.

**EXPOSURE AND RISK ALLOCATION**

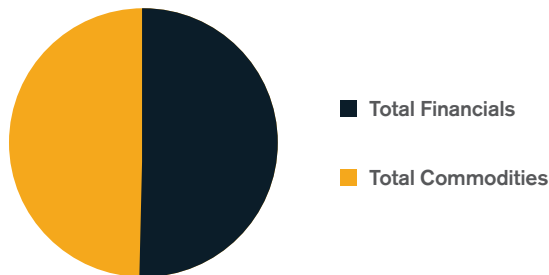
Commodity to Financial exposure had the financial markets gain to a near balance at 50:50 from last month per Chart 4.

Within commodities, the most notable changes were reducing Soft Commodities. Within Financials, Equity Indices were added while Currency exposure was reduced.

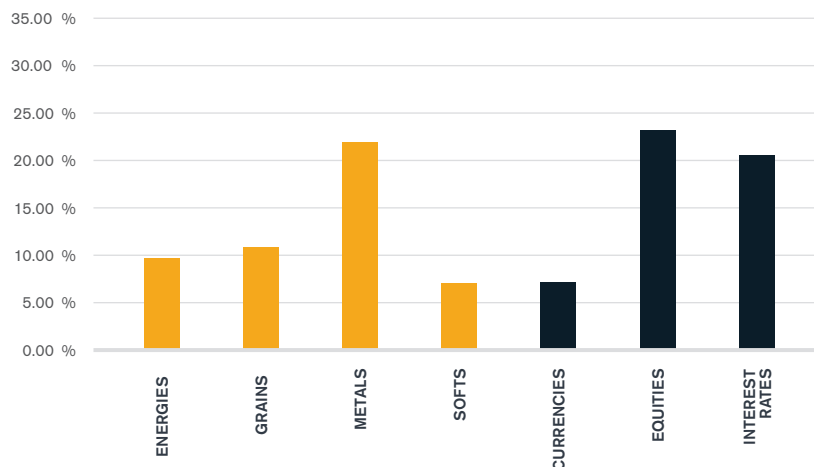
Portfolio exposure, as measured by the Margin to Equity ratio, ended the month at 4.9% which is below the historical average level of 6.8% (see Chart 6 next page).

**CURRENT RISK BY SECTOR**

**Chart 4** COMMODITIES VS. FINANCIAL EXPOSURE



**Chart 5** CURRENT SECTOR RISK



**ENERGIES 9.71%**

Largest Holdings	Position	% of Risk
Crude Oil (WTI)	Short	2.56%
Natural Gas	Short	2.47%
Heating Oil	Short	2.43%

**GRAINS 10.91%**

Largest Holdings	Position	% of Risk
Corn	Short	7.35%
Wheat	Long	2.43%
Soybeans	Short	1.13%

**METALS 21.93%**

Largest Holdings	Position	% of Risk
Silver	Long	7.80%
Palladium	Long	4.83%
Gold	Long	4.74%

**SOFTS 6.94%**

Largest Holdings	Position	% of Risk
Sugar	Short	5.10%
Cotton	Short	1.63%
Rubber	Short	0.21%

**CURRENCIES 7.13%**

Largest Holdings	Position	% of Risk
Japanese Yen	Short	6.95%
British Pound	Long	1.14%
US Dollar Index	Long	1.14%

**EQUITIES 23.06%**

Largest Holdings	Position	% of Risk
Nikkei Index (Japan)	Long	7.05%
DJ Euro Stoxx Index	Long	5.97%
S&P500	Long	5.06%

**INTEREST RATES 20.31%**

Largest Holdings	Position	% of Risk
Treasury Bond/30yr (USA)	Long	12.88%
Treasury Note/10yr (USA)	Long	4.97%
Euro Schatz (Germany)	Short	5.04%

\* 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.

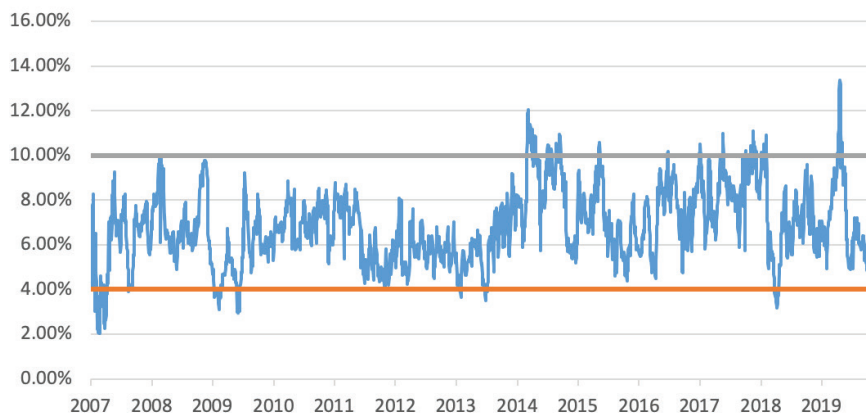
With a long term correlation of -0.16 to the S&P (see front page), and a modest 0.58 correlation to the SG CTA Index (1 year basis - daily returns), this demonstrates the combined performance and non-correlation to equity and other CTAs is accretive and valuable.

### 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)



Program Statistics (from Jan 2007)		Trade Statistics	
Annualized Return	1.34%	Avg Monthly Gain	2.88%
Annualized Std Dev	11.65%	Avg Monthly Loss	-2.15%
Largest Drawdown	-26.04%	Daily Std Dev	0.67%
Sharpe Ratio <sup>1</sup>	0.20	Daily VAR (sim w/99% conf)	-0.70%
MAR Index <sup>2</sup>	0.05	Round Turns per \$million	600
Sortino	0.35	Margin to Equity ratio	6.8
Upside/Downside Deviation	0.15 / 0.05	Average Hold Period (Days)	65
Correlation to S&P 500	-0.16	% Profitable	43%
Correlation to TSX60	-0.09	\$Win / \$Loss	1.48
Correlation to BCOM ER	0.03	Skew	0.99

**Table 3** NAVS

NAV	Auspice Managed Futures LP*		
LP		MTD	YTD
Series 1	1066.7669	-1.33%	-8.29%
NAV	Auspice Diversified Trust		
Class A	8.1634	-1.42%	-8.91%
Class F	8.7267	-1.34%	-8.12%
Class S	7.9661	-1.42%	-8.91%
Class I	10.5790	-1.25%	-7.28%
Class X	9.9885	-1.33%	-8.10%

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	\$185MM
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
2019	-4.14%	-0.47%	-0.65%	3.50%	-7.43%	-0.37%	0.52%	10.60%	-7.59%	-1.33%			<b>-8.29%</b>
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%	<b>-0.61%</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), 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.

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