

May Review

Market Review

The market environment remains challenging as volatility across many asset classes is very low. Equities, Interest Rates, Currencies and several commodities are experiencing the lowest volatility since pre-crisis in 2008. Some markets, like Crude Oil, are at 20 year lows. This is a deceiving blanket of comfort. Historically, these periods of non-volatility are followed by violent market activity. Is this non-volatile environment the proverbial calm before the storm? Institutional asset class rotation hints at potential changes. The momentum from asset class rotation away from Equities and Fixed Income is building.



There may or may not be a storm coming, but time and time again investor complacency has proven dangerous when the unexpected inevitably occurs.

Index Review

The AMFERI pulled back 3.97% in May to be off 8.33% in 2014 year-to-date (see Table 1). While lagging the benchmarks indicated year-to-date, the index outperformed in 2013 and recently in April as Equities corrected. This is consistent with the long term outperformance.

Table 2 reveals that the long term performance of AMFERI (versus both investable and non-investable managed futures indices) has been strong despite the challenging environment in recent years. Since the launch of the index in December 2010, the AMFERI has outperformed significantly on both an absolute and risk-adjusted basis (see Table 3).

Portfolio Recap

In May, two sectors of the index were positive. The AMFERI made gains in the Energy and Interest Rates sectors while Ags caused the bulk of overall index correction. Within commodities, the strategy holds 8 components to be long 66% of the possible basket while Currencies are evenly split long and short. During the month a long weight in Cotton was shifted to short while a new long position in US 10 Year Notes added to the long exposure within that sector.

Energy

The Energy sector continues to move higher in a low volatility fashion led by Crude and Gasoline in May. The index is long all components within the sector.

Metals

The combination of long and short positions did not help Metals this month. The (only) sector long weight in Gold pulled back while Copper moved higher against its short weight. The Silver short offset some of the sector weakness as it softened.

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Table 1: May and 2014 Year-To-Date

2014	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
May 2014	-3.97%	1.41%	-1.01%	1.87%
YTD	-8.33%	0.22%	-0.33%	-0.09%

Table 2: 5 Year Annualized Performance

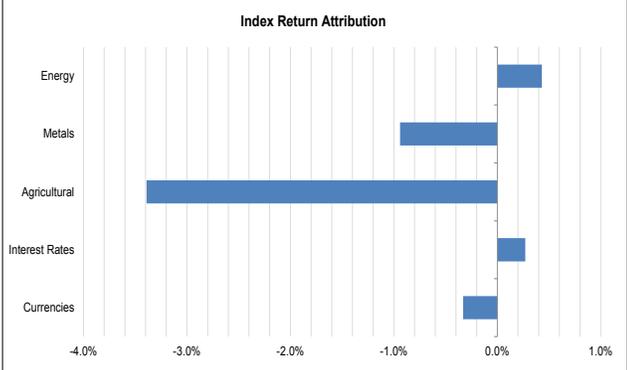
5 Year Annualized - ending May 2014	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Annualized Return	3.94%	-0.29%	-4.04%	0.08%
Annual Std. Dev.	10.48%	5.20%	6.63%	6.82%
Sharpe Ratio	0.38	-0.06	-0.61	0.01
MAR Ratio	0.23	-0.03	-0.18	0.01
Largest Drawdown	17.17%	8.34%	22.05%	11.78%

Table 3: Cumulative Return Since Inception

Dec. 2010 to May 2014	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Cumulative Return	1.12%	-1.96%	-9.98%	-3.67%

As a single strategy investable CTA index, this strategy provides the benefits of traditional CTA through trend following and risk management along with the benefits of transparency and third party publishing, monitoring and benchmarking. The strategy now underlies ETFs, 40 act mutual funds and managed accounts providing a low cost means of allocating to Managed Futures without sacrificing performance.

Figure 1: May 2014 Monthly Index Return Attribution



Agriculture

The Ag sector corrected sharply in May after leading the index performance for the past few months. The strategy responded by exiting Cotton to be short. The Grains sub-sector was responsible for the bulk of the weakness with Corn and Wheat pulling back the most. The short Sugar position offset some of the sector weakness.

Interest Rates

The Rates sector provided a gain while adding 10 Year Notes to existing long positions US 30 Year Bonds and 5 Year Notes.

Currencies

Currencies were slightly off as the low volatility environment continued to shelter price trends. Positions were unchanged this month, holding long positions in the Aussie dollar, Euro and the British Pound while short the US Dollar Index, Canadian Dollar and the Japanese Yen.

Outlook

The AMFERI has had an inauspicious start to the New Year in a very challenging environment. Interestingly, when the Equity market did correct in April, the strategy provided performance during a key time when non-correlation is most beneficial. While the current environment is frustrating for the AMFERI, it is consistent with the long term outperformance of the strategy and given sector performance is concentrated where the strategy does not participate (i.e. Equity). It is important to consider the non-correlated benefits and historical crisis alpha in the context of a well-diversified portfolio.

If you are interested in a copy of an analysis of the drawdown and recovery periods for AMFERI, please contact Auspice. See synopsis below.

Synopsis of AMFERI Drawdown and Return Analysis.

Managed Futures is typically a difficult strategy to time because of the non-correlated performance that results from the widespread diversification of market sectors covered. One of the best ways to consider an entry point is through an understanding of drawdowns over time. Pullbacks occur in every strategy, however given transparency of the returns, it is intuitive to analyze the character of the pullbacks and subsequent gains with managed futures. These pullbacks generally represent an opportunity from which trends develop and extend. Furthermore, the time to make new gains is often quicker than the length of the pullback (peak to valley).

Please contact us at info@auspicecapital.com for the complete analysis.

Strategy and Index

The Auspice Managed Futures Index is an investable single strategy CTA. The index aims to capture upward and downward trends in the commodity and financial markets while carefully managing risk. The index uses a quantitative methodology to track either long or short weights in a diversified portfolio of 21 exchange traded futures which cover the energy, metal, agricultural, interest rate, and currency sectors. The index incorporates dynamic risk management and contract rolling methods. The index is available as either a total return index (includes a collateral return) or as an excess return index (no collateral return). Auspice is an innovative asset manager that specializes in applying formalized investment strategies across a broad range of commodity and financial markets. Auspice's portfolio managers are seasoned institutional commodity traders. Their experience, trading one of the most volatile asset classes, forms the backbone of their strategy for generating profits while preserving capital and dynamically managing risk.

About Auspice

Auspice Capital Advisors Ltd. is a registered Portfolio Manager / Investment Fund Manager / Exempt Market Dealer in Canada and a registered Commodity Trading Advisor (CTA) and National Futures Association (NFA) member in the US. Auspice's core expertise is managing risk and designing and executing systematic trading strategies.

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