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# AUSPICE eBeta™ Enhanced Indices

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Methodology for the  
Auspice Managed  
Futures Indices

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## OVERVIEW OF THE INDICES

### INTRODUCTION

The Auspice eBeta™ Enhanced Indices (“the Indices”) were created by Auspice Capital Advisors Ltd. (“Auspice”) to be liquid tradable benchmarks that provide benefits not typically available in passive indices, such as: dynamic positioning, volatility based position sizing and rebalancing, and contract roll optimization.

This document describes the methodology for the Auspice Managed Futures Indices. Neither this document nor any set of procedures, however, are capable of anticipating all possible circumstances and events that may occur with respect to the Indices and the methodology for their composition, weighting and calculation. All questions of interpretation with respect to the application of the provisions of this methodology, including any determinations that need to be made in the event of a market emergency or other extraordinary circumstances, will be resolved by Auspice and the Index Committee. The methodology may be amended or changed only upon the approval of Auspice and the Index Committee.

### THE AUSPICE MANAGED FUTURES INDEX

The Auspice Managed Futures 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 positions 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). The Indices were created to yield a benchmark value of 1000 on January 1, 2000.

### KEY CHARACTERISTICS OF THE INDICES

#### SYSTEMATIC POSITION DETERMINATION

The Index will take long or short positions based on a systematic assessment of the current state of each market. The rules are agile and the system can change its position in any given component on any day of the month.

#### VOLATILITY BASED POSITION SIZING AND REBALANCING

Position sizing and rebalancing are based on the component’s historical volatility. This approach to risk management improves the risk adjusted returns of the Index.

#### CONTRACT ROLL OPTIMIZATION

The Index roll strategy seeks to minimize the negative impact, and maximize the positive impact of contango and backwardation by selecting the contract with the highest expected roll return along the forward curve.

## INDEX COMMITTEE

Auspice has established an Index Committee (“the Index Committee”) to oversee the daily management and operations of the Auspice Indices.

The components comprising the Index may change at the discretion of the Index Committee. Components may be added or removed from the Index based on changes to the futures contracts, their liquidity and their suitability to achieving the Index goals.

Changes to the methodology may be made, if deemed appropriate by the Index Committee, in order to achieve the Index goals.

The Index Committee will meet annually (minimum) to review possible changes for the following year.

**INDEX CONSTITUENTS AND WEIGHTINGS**

Table 1 – Component Specifications

	Sector	Component	Symbol	Exchange	Contract Size	Price Quote	
<b>COMMODITIES</b>	<b>Energy</b>	Crude Oil	CL	NYMEX	1000 bbl	USD/bbl	
		Heating Oil	HO	NYMEX	42,000 gal	US cents/gal	
		RBOB Gasoline	RB	NYMEX	42,000 gal	US cents/gal	
		Natural Gas	NG	NYMEX	10,000 mmBTU	USD/mmBTU	
	<b>Metals</b>	Gold	GC	COMEX	100 oz	USD/oz	
		Silver	SI	COMEX	5000 oz	USD/oz	
		Copper	HG	COMEX	25,000 lbs	US cents/lbs	
	<b>Agricultural</b>	Corn	C	CBOT	5,000 bu	US cents/bu	
		Soybeans	S	CBOT	5,000 bu	US cents/bu	
		Wheat	W	CBOT	5,000 bu	US cents/bu	
		Cotton	CT	ICE-US	50,000 lbs	US cents/lbs	
		Sugar	SB	ICE-US	112,000 lbs	US cents/lbs	
	<b>FINANCIALS</b>	<b>Interest Rates</b>	30 Year Bond	US	CME	\$100,000	USD
			10 Year Note	TY	CME	\$100,000	USD
5 Year Note			FV	CME	\$100,000	USD	
<b>Currencies</b>		Australian Dollar	AD	CME	100,000 AUD	USD/AUD	
		British Pound	BP	CME	100,000 GBP	USD/GBP	
		Canadian Dollar	CD	CME	100,000 CAD	USD/CAD	
		Euro	EC	CME	125,000 EUR	USD/EUR	
		Japanese Yen	JY	CME	12,500,000 YEN	USD/YEN	
		Dollar Index	DX	ICE-US	\$1000	USD	

## COMPONENT SELECTION

The components chosen for inclusion in the Index were selected to provide a broad and diverse representation of commodities and financial contracts from the liquidly traded North American exchange traded futures markets. See Table 1 for a list of the components and their contract specifications.

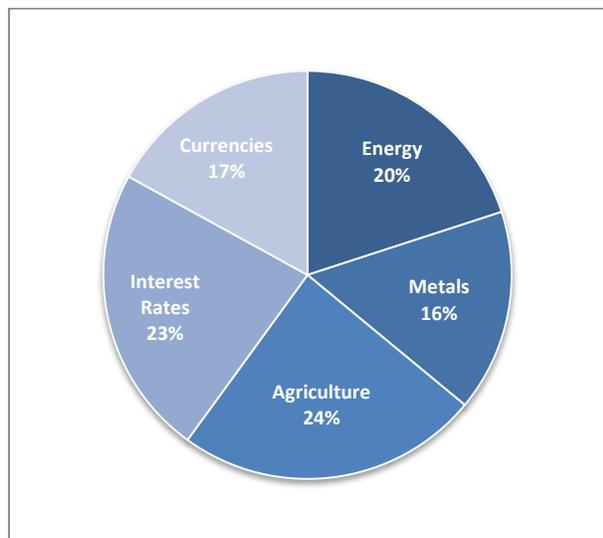
## COMPONENT WEIGHTINGS

Each component is allocated an equal amount of the total risk within the commodity or financial group. The split between commodities and financials for the Index was chosen with the overriding goal of keeping the total gross notional exposure below 200% at all times.

## SECTOR WEIGHTINGS

The sector risk allocations<sup>1</sup> are illustrated in Figure 1. The allocation to each sector will vary as the individual component's volatility changes, or positions are rebalanced.

Figure 1 – Sector Risk Allocation for the Managed Futures Index



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<sup>1</sup> The sector risk allocations are as of Jan 23, 2012.

## INDEX CONSTRUCTION

### POSITION DETERMINATION

The Index uses a quantitative trend following strategy to determine position entries and exits. High and low signals are generated based on a breakout from a high or low range. A signal can be generated on any day of the month. If a high or low signal is indicated, a position is either entered or exited at the following day's settlement.

The Index takes long or short positions in the commodity and financial markets based on the high or low signals, therefore the Index is positioned either long or short in each component depending on the direction of the prevailing trend.

### INITIAL POSITION SIZING

The Index allocates risk and sizes positions based on each component's historical volatility. Position sizes are normalized based on the volatility of the component's price. The measure of volatility that the Index uses is the Average True Range (ATR). The size of the position that the Index takes in any component is dependent only upon the individual component's volatility and the total index value, i.e. it is independent of any other component's volatility or position.

### REBALANCING POSITIONS

The Index components will be rebalanced monthly if their current volatility exceeds a predetermined threshold level. If a rebalance occurs, the volatility threshold level is reset to a new high water mark level. Subsequent rebalances will only occur if the volatility exceeds the new threshold level.

The rebalance improves the risk adjusted return of the Index for the following reasons:

1. It prevents the Index from becoming too heavily weighted to any single component or sector which lowers the overall volatility of the Index.
2. It crystallizes trading profits when markets become volatile during extended trends thereby capturing larger portions of profitable movements.
3. It reduces position size during volatile moves against the trend thereby reducing losses.

## ROLLING FUTURES POSITIONS

As the contracts comprising the Index approach expiration, the closest expiring contracts are replaced with contracts with longer dated maturities during the roll period. The Index rolling mechanism is based on the following principles:

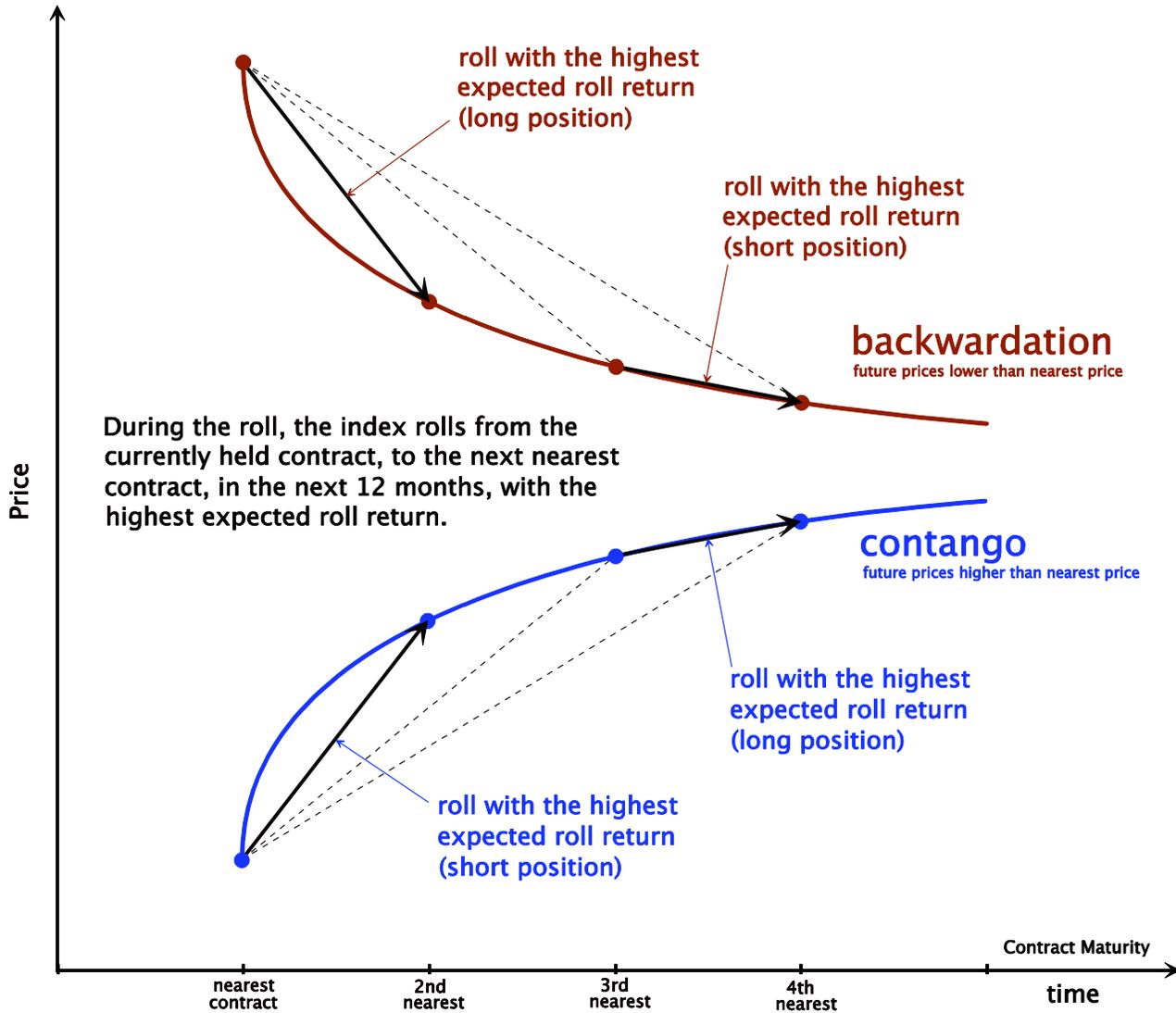
1. Ensuring adequate liquidity – only contracts that have a daily trading volume above a threshold level are considered during the roll.
2. Minimizing the number of rolls to reduce transaction costs and slippage – by eliminating illiquid contracts and contracts that historically have low open interest, rolling costs are reduced.
3. Minimizing the negative impact, and maximizing the positive impact of contango and backwardation – the rolling process is optimized to select the optimal contract from the universe of eligible contracts with which to roll into. The selection is made by selecting the next qualifying contract (within the next 12 months) with the maximum expected roll return (Figure 3). See Appendix B for the calculation to select the optimal contract.

NOTE: The roll optimization only applies to the commodity components. The financial components simply roll from the nearest eligible contract to the next nearest eligible contract.

## EXCESS AND TOTAL RETURN

The cash return for the total return index will be calculated daily using the 3-month CDOR (Canadian Dealer Offered Rate). The CDOR is the average rate for Canadian bankers' acceptances for specific terms-to-maturity (one year or less), determined daily from a survey on bid-side rates provided by the principal market-makers, including the major Canadian banks.

Figure 3 - Contract Rolling Procedure



## INDEX PUBLICATION

The Indices are calculated and published by NYSE on a daily basis. See Table 2 for publication details.

Table 2 - Index Publication Codes

Index Name	Bloomberg Code	Reuters Code
Auspice Managed Futures Excess Return Index	AMFERI:IND	.AMFERI
Auspice Managed Futures Total Return Index	AMFTRI:IND	.AMFTRI

## INDEX POLICY

### HOLIDAYS

The Indices are calculated on a daily basis and the holiday schedule for each component is based on the schedule as published by the individual exchanges that the component trades on. For the purposes of index calculation, if one or more components have a holiday on a day that is not a holiday for every component of the Index, the previous business day's settlement price will be used for the index calculation.

### MARKET DISRUPTIONS AND UNSCHEDULED MARKET CLOSURES

The Auspice eBeta™ Enhanced Indices are futures based indices. From time to time, disruptions can occur in trading futures contracts on various exchanges. The following rules will govern the means by which the Indices will accommodate potential market disruptions:

1. In the event of the termination or suspension of, or material limitation or disruption in, the trading of any future used in the calculation of the Index on that day, the Index will use the previous day's settlement price in the calculation of the Index.
2. In the event that the settlement price of any such contract reflects the maximum permitted price change from the previous day's settlement price (i.e. a contract hits its daily price limit), the Index will use the official settlement price for that day. Notwithstanding the foregoing, in the event that a market is at its price limit on a day where the component would be entering or exiting a position, rebalancing, or rolling, the Auspice Index Committee may, at its discretion, delay the position change of the Index to the next business day.
3. In the event that there is a failure of an exchange to publish official settlement prices for any such contract, the Index will use the previous day's settlement price in the calculation of the index.

Any subjective decisions relating to market disruptions will be made by the Auspice Index Committee.

### DATA CORRECTIONS

Commercially reasonable efforts are made to ensure the correctness of data used in the index calculations. If incorrect price data is detected, it will be corrected as soon as feasible.