

August Review

Market Review

Commodities continued the previous month's sell-off before snapping back sharply at month end alongside equities.

Until the rally in the final few days of the month, there were only a few pockets of commodity strength and we have made a number of portfolio changes, highlighted below.

While the short term movements of commodities are difficult to gauge, we believe that this low price environment provides a valid entry point for the continued use of commodities as diversification, event risk protection, and importantly, inflation protection for a portfolio.

This view is highlighted in recent paper published by Auspice (located in the Resources tab of our website, under 'Research').

Index Review

The ABCERI lost 1.59% in August (see Table 1), in-line with long-only Commodity index benchmarks. As such, the strategy's absolute return is performing similar to the benchmarks year to date, yet with far less volatility.

Generating and adjusting selective exposures based on trends and risk of specific sectors versus the traditional and more volatile ways of gaining the beneficial exposure illustrates the strategy's ability to provide a more disciplined way to be exposed to commodities in the longer term.

As Table 2 illustrates, the ABCERI has performed well as a store of value over this prolonged period of commodity weakness. The index has produced better long term absolute and risk-adjusted returns than its peers while minimizing drawdowns. Importantly, this highlights the strategy's ability to limit the downside and volatility significantly versus benchmarks. Table 3 reveals the index's ability to protect capital despite a challenging period for commodities.

Continued on next page >>

Table 1: Month and 2015 Year-To-Date

2015	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Aug 2015	-1.59%	0.29%	-0.93%	1.46%
2015 YTD	-13.56%	-14.04%	-12.84%	-13.64%

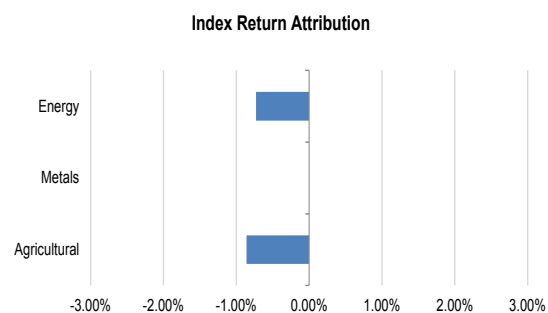
Table 2: 7 Year Annualized Performance

7 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	0.53%	-15.01%	-9.99%	-10.87%
Annual Std. Dev.	10.34%	24.26%	18.25%	21.36%
Sharpe Ratio	0.05	-0.62	-0.55	-0.51
MAR Ratio	0.02	-0.24	-0.21	-0.22
Largest Drawdown	33.30%	63.48%	48.17%	50.40%

Table 3: Cumulative Return since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	-9.93%	-36.42%	-35.20%	-33.10%

As outlined in an independent report by ETF Securities, the Auspice Broad Commodity Index remains one of the top performing global broad commodity indices. If you would like a copy of the most recent report, please contact Auspice.



Portfolio Recap:

The Broad Commodity index exited a number of markets throughout the month. Continued Energy weakness had the strategy exit the remaining exposure while Grains and Softs also were trimmed in the Agricultural sector. Long positions were exited in Gasoline, Corn, Soybeans and Cotton. As such, the strategy is only long 1 of 12 components (or 8%) of the possible basket. This puts the strategy back to a similar place to last fall when all components were without a weight.

Energy

The strategy began the month holding the strongest performer of the Energy market - Gasoline - but this market also began to fall alongside other energies and commodities. Gasoline was exited and there is no current energy exposure. Natural Gas held up better than the petroleum based energies, but was also lower on the month.

Metals

Precious metals, particularly Gold and Silver, held up better than most commodities. However, the strategy remains without a weight in the sector.

Agriculture

Despite Ags being the most promising of commodities in recent months, recent strength was mostly short lived. The recently added Corn and Soybean weights were exited. Cotton was also exited. This has been a very choppy sector this year, lacking significant trend follow through. The strategy is only holding Wheat at this time, the sole exposure in the portfolio.

Outlook

While it is difficult to determine the cause of recent weakness, we will highlight that largest benefactor of the weakness is China, now the largest importer of Crude Oil in the world and surpassing the U.S. as of late spring. While on the surface commodities may appear without demand currently, it is oversupply that causes the largest shifts in prices up and down. As such, we remain optimistic in the long term outlook for commodities despite the volatility.

The strategy remains positioned to selectively capture upward trends in the commodity markets while minimizing risk and capital loss during downtrends.

We continue to believe that this current market environment may represent a correction within a longer term trend, and that the long-term outlook for commodities remains promising in a global context. Moreover, we believe that it is possible that equities are overvalued while commodities are undervalued which would highlight the value of a tactical long/flat approach in gaining diversified long commodity exposure and inflation protection based on the merits of individual market momentum and volatility (versus a long only method). The long term out-performance in absolute and risk adjusted terms in Tables 2 and 3 confirms this.

Strategy and Index

The Auspice Broad Commodity Index aims to capture upward trends in the commodity markets while minimizing risk during downtrends. The index, which is considered to be a “third generation commodity index”, considers both risk and reward. The index uses a quantitative methodology to track either long or flat weights in a diversified portfolio of 12 commodity futures which cover the Energy, Metal, and Agricultural sectors.

The Broad Commodity index is available in Total and Excess Return versions. 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.

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.