

July Review

Market Review

Commodities moved sharply lower in July as equities rallied. Despite pockets of commodity strength in recent months, the weakness appeared across all sub-sectors and markets in the strategy.

While commodities showed some strength from April through early July, this weakness adds volatility making the future harder to predict. However, as mentioned last month, this type of movement may foreshadow that a transition may be afoot and typically occurs in times of trend changes in both commodity and financial markets.

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

Index Review

The ABCERI lost 7.77% in July (see Table 1), which represented a smaller loss compared to the more volatile long-only Commodity index benchmarks. As such, the strategy is now outperforming the benchmarks year to date. This illustrates the strategy's ability to provide a more disciplined way to be exposed to commodities long-term by generating and adjusting selective exposures based on trends and risk of specific sectors.

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 very challenging period for commodities.

The ABCERI does not attempt to track the broad commodity markets or predict their direction. It aims to capture upward price trends tactically from only commodities that are making sustained moves higher, while preserving capital on those commodities that are making sustained moves lower.

Continued on next page >>

Table 1: Month and 2015 Year-To-Date

2015	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
July 2015	-7.77%	-14.10%	-10.62%	-12.84%
2015 YTD	-12.17%	-14.29%	-12.03%	-14.89%

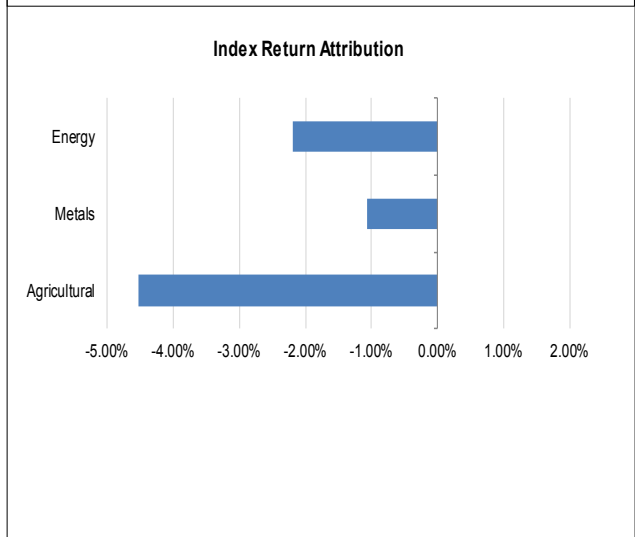
Table 2: 7 Year Annualized Performance

7 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	0.06%	-15.95%	-10.85%	-11.85%
Annual Std. Dev.	10.49%	24.36%	18.42%	21.44%
Sharpe Ratio	0.01	-0.65	-0.59	-0.55
MAR Ratio	0.00	-0.23	-0.21	-0.21
Largest Drawdown	32.23%	68.06%	51.67%	55.97%

Table 3: Cumulative Return since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	-8.48%	-36.60%	-34.59%	-34.06%

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.



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Portfolio Recap:

The Broad Commodity index added new long exposures in Corn and Soybeans early in the month. However, as the month progressed, weakness appeared and a number of positions were trimmed. The strategy exited long positions in Gold and Copper as well as in Heating Oil. Despite recent weakness, the index is now long 5 of 12 components (or 42%) of the possible basket, representing a significant change from last fall when all components were without a weight.

Energy

The Energy markets led the commodity sector weakness in July with WTI Crude falling over 20%. While the strategy did not hold Crude Oil exposure, it entered the month modestly exposed to Gasoline and Heating Oil. Heating Oil was exited during the month leaving only the Gasoline market in the portfolio mix.

Metals

Metals also sold off in July and the strategy exited the remaining exposures in Gold and Copper. The strategy is now without a weight in the sector.

Agriculture

Ags have had the most significant trends develop recently, and the strategy added Corn and Soybeans early in the month. However, they too fell into correction during July and the sector was the largest contributor to the loss on the month.

Outlook

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 becoming overvalued while commodities are undervalued which would highlight the value of a tactical long/flat approach in gaining 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 1, 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.