

May Review

Market Review

Commodities were generally softer in May.

While most commodities and the respective benchmarks were off during the month, specifically weakening at month end, there were pockets and periods of performance that highlight that transitions may be afoot. While trends have been short thus far, the moves have been sharp. The volatility looks significant when compared to the equity markets which remain low. In fact, the VIX Volatility Index is making new all-time lows which seems to mask actual risk.

The strategy has remained modestly exposed to commodities but has begun to add back components after exiting positions completely last fall due to the lack of sustained upside and predominant downtrend that started in mid-2014.

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

Index Review

The ABCERI lost 1.78% in May (see Table 1), outperforming the more volatile long-only Commodity indices. While underperforming these same benchmarks year to date, it provides a more disciplined way to be exposed in the longer term. The benefits of the long/flat tactical approach for commodities in the context of an asset allocation approach are clear.

As Table 2 illustrates, the ABCERI has performed well as a store of value over this period of significant commodity weakness. The index has produced better long term absolute returns 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 capture the upside over time 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
May 2015	-1.78%	-1.99%	-2.70%	-2.91%
2015 YTD	-4.69%	-0.10%	-3.35%	-5.51%

Table 2: 7 Year Annualized Performance

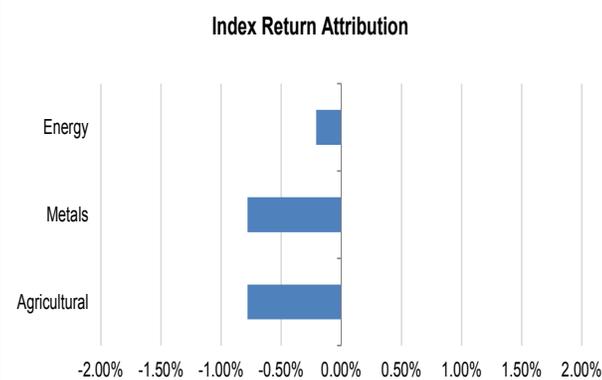
7 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	1.08%	-14.65%	-10.18%	-10.66%
Annual Std. Dev.	10.78%	24.54%	18.87%	21.66%
Sharpe Ratio	0.10	-0.60	-0.54	-0.49
MAR Ratio	0.04	-0.20	-0.18	-0.18
Largest Drawdown	26.45%	72.20%	57.90%	59.84%

Table 3: Cumulative Return since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	-0.68%	-26.11%	-28.06%	-26.57%

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.

Figure 1: Monthly Index Return Attribution



Portfolio Recap:

The Broad Commodity index made a number of shifts during the month, adding 3 new commodity long weightings. While still predominantly tactically flat, the addition of Heating Oil, Gasoline and Copper suggests that there are signs of transition from the prolonged commodity sell-off. The index is now long 5 of 12 components (or 42%) of the possible basket, a significant change from last fall when all components were without a weight.

Energy

The strategy initiated long weightings in Gasoline and Heating Oil, the first since exiting energy weightings last summer prior to the big sell-off that followed. While only 50% exposure within the sector (of the possible basket), the shift is notable.

Metals

The Copper strength from April persisted to start the month and the index shifted to a long exposure yet base metals spent the rest of the month softening. We continue to hold Gold while the strategy remains without a weighting in Silver at this time. Negative performance on the month.

Agriculture

Grains continued their slide and the strategy remains without long exposure. The index continues to hold Cotton which was weak on the month which accounted for the negative sector performance on the month.

Outlook

While the strength in Energies has caught the attention of many and been included in the typical commodity benchmark performance, it is too early to call a bottom in commodities as a whole, yet there are clearly signs of this overall sector trend getting old, as exhibited in energies. As such this underscores 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.

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.