



October 2015 Review

Market Review

Commodities started Q4 quietly after a weak Q3.

After significant weakness year to date in 2015, commodities have stabilized recently while equities have rallied back following sharp declines in recent months. The Broad Commodity portfolio entered the month completely flat but added a single component during October.

While entering an asset class as volatile as commodities can take some courage, especially after such a long period of weakness, the diversification benefits are compelling. Using a tactical long-flat approach may pay off given that the downside is now reduced from an exposure perspective. Patience and time may be required before commodities are able to provide significant upside returns, but we believe that this low price environment provides a compelling entry point for the continued use of commodities for 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 was flat in October (see Table 1) alongside most long-only Commodity index benchmarks. The strategy's absolute return is outperforming the benchmarks year to date with far less volatility.

The strategy's ability to generate and adjusting selective exposures - and tactically entering and exiting markets based on pervasive trends and risk of specific markets (versus the traditional and more volatile ways of gaining the beneficial exposure) - provides a more disciplined way to be exposed to commodities in the longer term.

As Table 2 illustrates, on a long term basis the ABCERI has outperformed benchmarks and is the only positive return of the group. It 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. Table 3 reveals the index's ability to protect capital over this prolonged period of commodity weakness.

Continued on next page>>

Table 1: Month and 2015 Year-To-Date

2015	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Oct 2015	-0.01%	0.23%	-0.45%	-0.24%
2015 YTD	-13.81%	-19.30%	-16.20%	-17.51%

Table 2: 8 Year Annualized Performance (11/07 - 10/15)

8 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	2.48%	-12.40%	-8.85%	-7.43%
Annual Std. Dev.	11.87%	24.47%	18.99%	21.69%
Sharpe Ratio	0.21	-0.51	-0.47	-0.34
MAR Ratio	0.07	-0.16	-0.14	-0.12
Largest Drawdown	33.49%	75.61%	62.49%	64.22%

Table 3: Cumulative Return Since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	-10.19%	-40.31%	-37.70%	-36.09%

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 added a single position to hold 1 of 12 (or 8.3%) of the possible portfolio long. While remaining in cash in both the Energy and Metals sectors, the single position was added to the Soft Commodity portion of the Agricultural sector.

Energy

The petroleum component of the Energy sector traded back and forth throughout the month. Heating Oil, Crude Oil (WTI), and Gasoline all lacked significant trend. Natural Gas was the weakest of the energies, selling off sharply during the month and the strategy remains on the sidelines, protecting capital.

Metals

Both Precious and Industrial metals represented in the index started the month strong but fell into month end. Most markets held on to some of their early gains, including Copper, Silver and Gold. The strategy remains without a weight in the sector.

Agriculture

The strategy remains on the sidelines across all Grains. While Soybeans showed a little more strength than Corn and Wheat, all have suffered from significant sell-off since peaking in early July. On the Softs side, Sugar was the outlier, moving higher for a second month. We have added a long weight in Sugar while remaining flat Cotton.

Outlook

Unchanged.

While commodities often get categorized as a single asset, the reality is quite different. While it is true that there can be high correlations within sectors, such as Grains or Energy, the merits of individual markets is important to recognize. The momentum, trend, risk, volatility, and term structure can be completely unique to each market. As such, when identifying opportunities or risks, this is a tactical process on an individual component basis. The result is a strategy that is wholly commodity focused yet agile, opportunistic and uncorrelated while preserving capital first and foremost.

As highlighted last month, we believe that the supply demand imbalance is squarely in the camp of over-supply and that this will adjust itself over time. Being patient yet strategically committed to the benefits of commodity exposure is the best way to add portfolio diversification, event risk protection, and importantly, inflation protection for a portfolio.

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.