

September Review

Market Review

Commodities fell in September ending the quarter as it started – softening.

The weakness in commodities parallels most other asset classes, including Equities, which fell sharply for a second month. While the last few days of the month provided some reprieve from weakness, the trend is well established. The portfolio is now completely flat.

While entering a market like this is difficult, using a tactical long-flat approach to protect against downside may pay off. Given that the downside is now cut-off, it is a matter of patience and time before commodities are able to provide upside returns again. As such, 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 lost 0.27% in September (see Table 1) while most long-only Commodity index benchmarks eroded sharply. The strategy’s absolute return is now outperforming the benchmarks year to date with far less volatility.

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.

Generating and adjusting selective exposures and tactically exiting markets based on pervasive 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.

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Table 1: Month and 2015 Year-To-Date

2015	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Sep 2015	-0.27%	-6.34%	-2.63%	-4.24%
2015 YTD	-13.80%	-19.47%	-15.13%	-17.31%

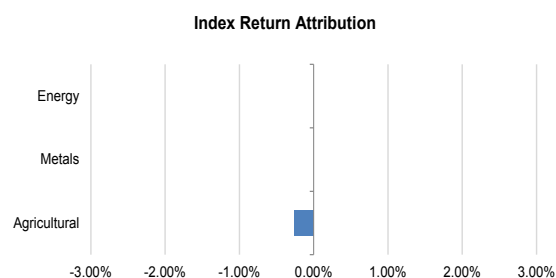
Table 2: 8 Year Annualized Performance

8 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	2.99%	-11.45%	-8.38%	-6.46%
Annual Std. Dev.	11.94%	24.72%	19.02%	21.92%
Sharpe Ratio	0.25	-0.46	-0.44	-0.29
MAR Ratio	0.09	-0.15	-0.14	-0.10
Largest Drawdown	33.48%	75.61%	62.61%	64.14%

Table 3: Cumulative Return since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	-10.18%	-40.44%	-36.90%	-35.94%

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 its only remaining position early in the month. While already in cash in the Energy and Agricultural sectors, the remaining Grain position was dropped. As such the strategy has no long exposure to any of the possible sub-sectors at this time. This is a similar position to last fall when all components were without a weight.

Energy

After rallying to the end August, this sector fell slowly through much of the month. The greatest weakness came from Heating Oil but was complemented by Crude Oil (WTI) and Gasoline. Natural Gas held up better than the petroleum based energies to start the month, but drifted downward later in the month to end lower.

Metals

Precious metals held fast, but could not manage any upward momentum. Silver looked strongest in this weak sector. Copper rallied early in the month before falling back. The strategy remains without a weight in the sector.

Agriculture

We exited the remaining Ag position in Wheat to start the month. However, Grains spent most of the month moving slightly higher. This was led by Wheat and Corn while Soybeans traded sideways. On the Softs side, Sugar followed a similar pattern - drifting higher - while Cotton moved sharply lower. While weak the last few months, the Ag sector remains one to watch for developing upside momentum.

Outlook

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 the individual markets is important to recognize. The momentum and trend, the risk and volatility, as well as the term structure can be completely unique. 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 over time. Thus 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.