



February 2016 Review

Market Review

Equities followed a similar volatile pattern as last month, selling off early and rallying into month end, yet commodities were less predictable. While commodities were volatile, some markets continued lower, while others moved higher. We believe this is best met with a tactical approach on an individual commodity basis as opposed to generic exposure to the asset class. The commodity markets have always been a place that single statements about the entire asset class are commonplace yet often inappropriate.

Despite some sub-sectors of sharp weakness, there are pockets of consolidation and even strength within commodities. As mentioned last month, this is a possible shift in momentum and worth noting. The strategy will be watching for persistence or failure in that shift and continue to make tactical adjustments as it did this month.

Index Review

The ABCERI gained 1.01% in February to be positive on the year (see Table 1). This performance along with a positive Q4 2015, is a significant outperformance from the long-only Commodity index benchmarks, which again fell. 2016 starts with better capital preservation and now upside performance than the peer group.

The tactical nature of the strategy allows it to generate and adjust selective exposures, entering or exiting (to hold cash) based on pervasive trends and risk of specific markets within commodity sub-sectors. This is unlike traditional and more volatile ways of gaining the beneficial portfolio exposure, which are generally "long-only" and adjusted less frequently. This provides a more disciplined and risk-managed way to be exposed to the commodities asset class in the longer term.

Table 2 illustrates that on a long term basis the ABCERI has outperformed its 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 better than its benchmarks over this prolonged period of commodity weakness by a significant margin.

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Table 1: Month and 2016 Year-To-Date

2016	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
1 Month	1.01%	-2.04%	-1.63%	-1.68%
2016 YTD	0.31%	-7.12%	-3.28%	-5.68%

Table 2: 8 Year Annualized Performance

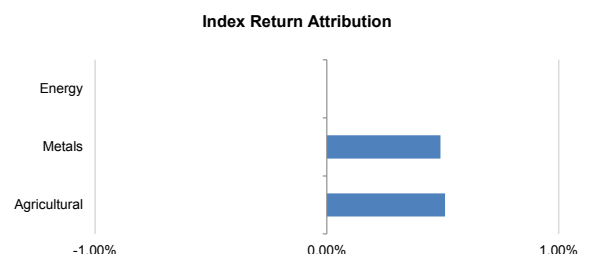
8 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	0.09%	-16.37%	-12.22%	-12.08%
Annual Std. Dev.	10.83%	24.32%	18.41%	21.44%
Sharpe Ratio	0.01	-0.67	-0.66	-0.56
MAR Ratio	0.00	-0.21	-0.18	-0.17
Largest Drawdown	33.67%	81.12%	67.40%	71.23%

Table 3: Cumulative Return Since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	-9.53%	-53.90%	-45.85%	-48.61%

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.

Chart 1: Index Return Attribution



The performance of Auspice Broad Commodity Index prior to 9/30/2010 is simulated and hypothetical as published by the NYSE. All performance data for all indices assumes the reinvestment of all distributions. To the extent information for the index for the period prior to its initial calculation date is made available, any such information will be simulated (i.e., calculations of how the index might have performed during that time period if the index had existed). Any comparisons, assertions and conclusions regarding the performance of the index during the time period prior to the initial calculation date will be based on back-testing. "These results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown."

**Portfolio Recap:**

In February, performance was positive in 2 of the 3 index sub-sectors with gains coming from Agricultural and Metals markets. There is currently no exposure in the Energy sector.

The Broad Commodity index shifted to a long position in Gold to hold 2 of 12 components (or 16.6%) of the possible portfolio long. This provides positions in both the Soft Commodity portion of the Agricultural sector and Metals providing tactical exposure.

Energy

Within the sector, the petroleum sub-sector showed some signs of consolidation after months of weakness. While WTI Crude Oil was only slightly softer, Heating Oil and Gasoline were relatively unchanged. Natural Gas was largest mover in the sector and sharply lower. The strategy remains flat all components within the sector.

Metals

Metals were again stronger than most commodity sub-sectors on the back of strength in both Industrial and Precious metals. Gold continued its upwards trajectory and the strategy shifted to long early in the month for a sector gain. It closed the month strong. Silver also moved higher yet softened at month end while Copper ended stronger. The strategy remains without exposure in Silver and Copper.

Agriculture

Within Ags, both Grains and Soft commodities were weak with Sugar being the exception. Soybeans, Corn, and Wheat all moved lower and the strategy remains without exposure in this sub-sector. On the Softs side, Cotton sold off while Sugar rallied to the benefit of the long weight. A strong month in Ags per Chart 1.

Outlook

Unchanged - In these environments, strategies with a tactical approach, taking positions only in those markets showing upside momentum and eliminating exposure to declining ones, is a responsible way of growing and protecting capital while maintaining valuable exposure to commodities.

Given the managed downside of this strategy, we believe that this low price environment provides a compelling entry point for the continued use of a long/flat commodity strategy for asset class 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').

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.