Auspice Broad Commodity Index Commentary and Performance

Auspice Broad Commodity Excess Return Index (ABCERI)

January 2016 Review

Market Review

Commodities started the month in the same falling pattern that ended 2015. This mirrored significant equity market weakness to start the year. However, after mid-month, the markets found some support and both sectors moved higher.

While most major equity and commodity indices ended the month down, there were pockets of strength from the start of the year, in Metals and Grains in particular. While this does not change the predominant downward trend, the momentum shift is worth noting. The strategy will be watching for persistence or failure in that shift before adjusting.

Index Review

The ABCERI lost 0.69% in January (see Table 1), far less than the long-only Commodity index benchmarks, which again fell sharply. The strategy began the year with better capital preservation 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	**-0.69%**	-5.19%	-1.68%	-4.07%
2016 YTD	**-0.69%**	-5.19%	-1.68%	-4.07%

Table 2: 8 Year Annualized Performance

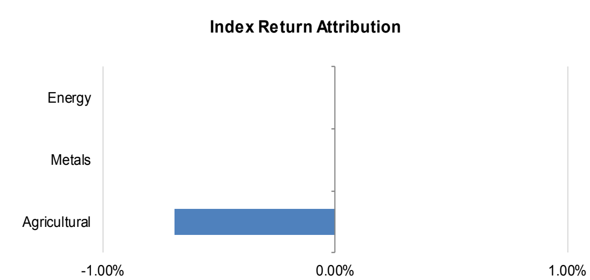
8 year Annualized Return	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Annualized Return	**1.23%**	-15.07%	-10.78%	-10.72%
Annual Std. Dev.	**11.45%**	24.70%	18.97%	21.85%
Sharpe Ratio	**0.11**	-0.61	-0.57	-0.49
MAR Ratio	**0.04**	-0.19	-0.16	-0.15
Largest Drawdown	**33.67%**	80.73%	66.87%	70.74%

Table 3: Cumulative Return Since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BLOOMBERG COMMODITY INDEX	DB LCI OY
Cumulative Return	**-10.43%**	-52.94%	-44.95%	-47.73%

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



Portfolio Recap:

Unchanged: The Broad Commodity index holds 1 of 12 components (or 8.3%) of the possible portfolio long. The strategy remains in cash in both the Energy and Metals sectors, while a single position in the Soft Commodity portion of the Agricultural sector provides tactical exposure.

Energy

Sharp weakness in Energy led commodities lower for the month. The weakness was widespread including the petroleum and natural gas sub-sectors. The latter part of the month witnessed Crude Oil lead a bounce back rally back for most markets, yet still lower than where it started the year. The strategy remains flat all components within the sector.

Metals

Metals were stronger than most commodities on the back of strength in Precious metals. Gold rallied from start and was complemented by Silver. Industrial metals fell following the general commodity trend before partially recovering at month end. The strategy remains without a weight in the sector.

Agriculture

Within Ags, Grains held up better than Soft commodities. Soybeans, Corn, and Wheat all moved slightly higher on the month. The strategy remains without a weight to this sub-sector. On the Softs side, Sugar reversed and moved lower yet remains the only long weight for the strategy. Cotton also moved lower but remains without a weight at this time.

Outlook

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.