



## March 2016 Review

### Market Review

Equities had a strong month globally after a rough start to the year. The rally in March took some indices positive on the year (such as the S&P 500 and the S&P/TSX 60) while the Nasdaq, MSCI World and Eurostoxx still remain in negative territory. The month ended on highs.

Commodities followed a similar path yet with more disparity across sub-sectors and individual markets. While generally stronger for the month, it ended with pullbacks in many sub-sectors including Energy, Metals and specific Grains and Soft Commodities.

As such, we continue to advocate that this is best met with a tactical approach on an individual commodity basis as opposed to generic exposure to the entire asset class.

After a long period of general commodity weakness, there are signs of a possible shift in momentum and this is worth noting. This is illustrated by additional long positions building in momentum based strategies. The Broad Commodity strategy falls in this category and is watching for persistence or failure in that shift and continues to make tactical adjustments as it did this month.

### Index Review

Auspice Broad Commodity gained 0.92% in March to add to the positive year to date (see Table 1). This strings two positive quarters together and is a significant outperformance from the long-only Commodity index benchmarks, most of which were negative in Q1 and Q4 2015. While not as strong as comparables in March, 2016 starts with better capital preservation in months where commodities fell and upside outperformance at critical times of inflection (such as February).

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 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.

Continued on next page>>

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. The index does not have commissions, management / incentive fees, or operating expenses. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown.

Note: Please refer to "Important Disclaimers" regarding comparable indices used herein.

Table 1: Month and 2016 Year-To-Date

2016	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
1 Month	0.92%	4.90%	3.79%	2.22%
2016 YTD	1.23%	-2.57%	0.34%	-3.59%

Table 2: 8 Year Annualized Performance

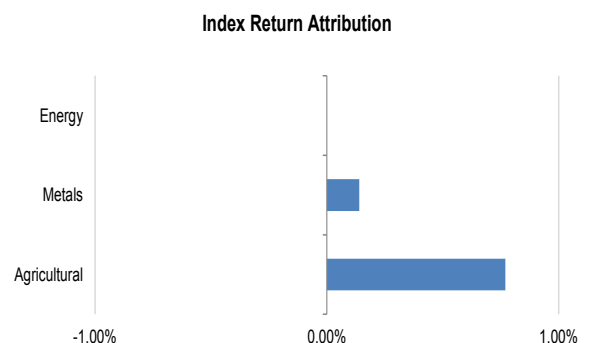
8 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	0.88%	-15.75%	-11.07%	-11.75%
Annual Std. Dev.	10.67%	24.42%	18.37%	21.47%
Sharpe Ratio	0.08	-0.65	-0.60	-0.55
MAR Ratio	0.03	-0.19	-0.16	-0.17
Largest Drawdown	33.67%	81.12%	67.40%	71.23%

Table 3: Cumulative Return Since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Cumulative Return	-8.70%	-51.64%	-43.80%	-47.47%

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:**

In March, performance was positive in the two sub-sectors of the index where positions are held. Gains continued to be made in Agricultural and Metals markets while there is currently no exposure within the Energy sector.

During March, the Broad Commodity index shifted to a long position in Soybeans to hold 3 of 12 components (or 25%) of the possible portfolio long. This now provides exposure in both the Soft Commodity and Grains portion of the Agricultural sector along with Metals providing tactical commodity exposure.

**Energy**

After bottoming in the late January to early February timeframe, the petroleum sub-sector continued to rebound. After months of weakness, this persisted until later in the month when most markets pulled back. Natural Gas did not share the same strength out of January but managed to close March stronger than other energy markets. The strategy remains on the sidelines in all components within the sector as the long term trend is still down.

**Metals**

The Metals sector was slightly positive on the back of a long position in Gold. While both Industrial and Precious metals were slightly stronger on the month, it was not a smooth ride. Most markets rallied early before reversing and softening into month end. Despite this, the momentum has been strong in this sector for a few months and it is one to watch carefully for long term trend change. Currently, the strategy remains without exposure in Silver and Copper.

**Agriculture**

Within Ags, both Grains and Soft commodities were generally stronger but also suffered from late month weakness. While Sugar was the top performing position, strength in Soybeans had the strategy shift to a long weight for a positive result on the month. Corn and Wheat showed less momentum with Corn dropping significantly to end the month. The strategy remains without a weight in Corn, Wheat and Cotton. Another strong month in Ags per Chart 1.

**Outlook**

Given the risk-managed downside of this strategy, we believe that this low price environment provides a compelling entry point for the use of a long/flat commodity strategy. The benefits for most portfolios include: asset class diversification, event risk protection, and, importantly, inflation protection for a portfolio. All of these are important considerations in the 2016 market environment.

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/or adjusted less frequently. This provides a more disciplined way to be exposed to the commodities asset class in the long term.

**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.

**Important Disclaimers**

The S&P Goldman Sachs Commodity Excess Return Index (**S&P GSCI ER**), is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.

The Bloomberg Commodity (Excess Return) Index (**BCOM ER**), is a broadly diversified index that allows investors to track 19 commodity futures through a single, simple measure.

The Deutsche Bank Liquid Commodity Optimum Yield Index (**DB LCI OY**), is an index composed of futures contracts on 14 of the most heavily traded and important physical commodities in the world.

The **SG CTA Index** (formerly Newedge CTA) provides the market with a reliable daily performance benchmark of major commodity trading advisors (CTAs). The SG CTA Index calculates the daily rate of return for a pool of CTAs selected from the larger managers that are open to new investment.

**Excess Return (ER)** Indexes do not include collateral return.