



May 2016 Review

Market Review

While Equities appear to be contained by a number of unknowns including: US FED meetings regarding interest rate policy, OPEC, and Brexit (Britain leaving the EU)- volatility is showing up in commodities.

Various sectors provided movement highlighted by Energy trending higher. WTI crude oil touched \$50 for the first time since last fall while Natural Gas continues to erode. Agricultural markets were also strong led by Grains while a sharp reversal in Metals provided a reminder that commodities are not a single asset.

The US Dollar Index also reversed sharply, gaining over 3% making those same commodities even more expensive.

We continue to see signs that after a long period of general commodity weakness, there is a shift in momentum worth noting. This is illustrated by numerous additional long positions building in momentum based strategies (see Portfolio Recap).

Index Review

Auspice Broad Commodity was flat in May, 0.00%, after a strong start to Q2 to remain positive year to date (see Table 1). While flat in May, Q2 adds to two positive quarters despite the recent outperformance from the long-only Commodity index benchmarks, most of which were negative in Q1 and Q4 2015. While not as strong as long only benchmarks in the last couple months, the strategy is outperforming most benchmarks with better capital preservation in months where commodities fell, far lower volatility, and a jump on upside performance over the previous two quarters.

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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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	0.00%	2.19%	-0.21%	1.08%
2016 YTD	5.29%	9.64%	8.63%	6.58%

Table 2: 8 Year Annualized Performance

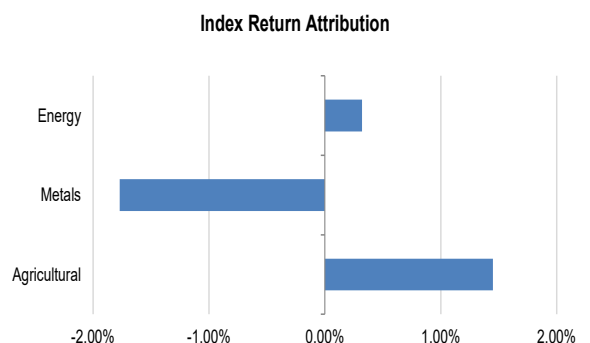
8 year Annualized Return	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Annualized Return	0.38%	-16.21%	-10.85%	-12.01%
Annual Std. Dev.	10.58%	24.30%	18.57%	21.46%
Sharpe Ratio	0.04	-0.67	-0.58	-0.56
MAR Ratio	0.01	-0.20	-0.16	-0.17
Largest Drawdown	33.67%	81.12%	67.40%	71.23%

Table 3: Cumulative Return Since Inception

From Oct. 2010	ABCERI	S&P GSCI ER	BCOM ER	DB LCI OY ER
Cumulative Return	-5.05%	-45.58%	-39.16%	-41.92%

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 those being shown. The index does not have commissions, management / incentive fees, or operating expenses.

**Portfolio Recap:**

The Broad Commodity strategy continued to shift weighting towards commodities this month adding back Energies. The index shifted to a long position in Crude Oil, Heating Oil, and Gasoline to hold 3 of 4 energy components (or 75%) of the basket long. This also expands the overall portfolio to 9 of 12 components (or 75%) now spread across all 3 sectors – Energy, Metals, and Grains.

Performance was positive in 2 sub-sectors of the index. Gains continued to be made in Ags and were complimented by new Energy positions while Metals markets pulled back sharply for a sector loss.

Energy

The petroleum sub-sector of energy continued to march higher throughout the month, only slowing near month-end. As a result, the index shifted to long weights in Crude, Heating Oil and Gasoline. This represents a significant shift in positioning which has been predominantly flat these markets since mid 2014.

Natural Gas bucked this trend and softened most of the month where the index remains without an exposure.

Metals

Metals appeared to use the new month as precisely the time to reverse. Both Precious and Industrial metals moved lower on the month while the strategy continues to hold the existing exposures. The sector was negative for the month on the back of the long positions in Gold and Silver and without a weight in Industrial metals (Copper).

Agriculture

Ags again led the index performance (per Chart 1) with contributions from both Grains and Soft Commodities which were generally stronger. Grains led this momentum higher with Soybeans the stand-out gaining over 11% complimented by Corn. Wheat, added late in April, pulled back slightly on the month for a negative contribution. On the Soft Commodity side of Ags, Sugar trended higher while Cotton traded back and forth lacking discernable trend and the index remains without a weight. The index remains long 4 of the 5 components that make up the Ag sector.

Outlook

Commodities appear to have come back to life. While the ever volatile long only commodity indexes have snapped back the last couple months gaining headlines, more tactical approaches can tell you a bit more: Opportunities in commodities started last fall. For example, despite the weakness in indexes such as the S&P GSCI (which lost 16.6% in Q4), individual markets started to show upside. By adding only those markets, the ABCERI outperformed and gained at the same time. This continued in Q1 of 2016 as GSCI fell 2.50% while the ABCERI gained 1.23%.

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 provides a more disciplined way to be exposed to the commodities asset class in the long term.

For these reasons we advocate that investing in this valuable asset class is best met with a tactical approach on an individual commodity basis as opposed to generic exposure to the entire asset class.

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.