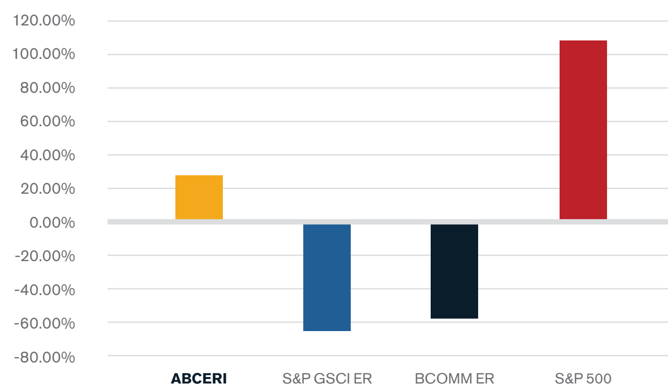
# BROAD COMMODITY INDEX

## COMMENTARY + STRATEGY FACTS

**FEBRUARY 2020**

### CUMULATIVE PERFORMANCE

( SINCE JANUARY 2007* )




| | | | | |
|---|---|---|---|---|
| Correlation | | 0.62 | 0.75 | 0.26 |

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## SUMMARY

While the strength in commodities ending 2019 seems like a distant memory, the sell-off that started in January and looks to have been the canary in the coal mine. Commodities continued to move lower as the fear has started to become reality as global economies are softening and demand is potentially being affected. The weakness was fairly universal and there were few places to hide. As such, the energy weighted GSCI lost a massive 16.67% while the more diverse Bloomberg Commodity index dropped 5.15%.

Global equities corrected sharply all in the last week of February. The S&P fell -8.41%, while the Nasdaq and MSCI World lost 6.38% and 9.73%. The Canadian TSX/S&P60 lost 5.89% while the TSX Energy sub-index tanked 14.97%, highlighting the resource energy weakness.

In response, Bond futures rallied sharply and the US dollar also ended higher for the month. Commodity currencies sold off while the Japanese Yen reversed and moved higher top close the month.

## RESULTS

The ABCERI lost 3.02% in February. While it may not feel like much solace, the tactical approach of the Auspice Broad Commodity program controlled the downside far better than long-only sector benchmarks (Table 1). The ABCERI long-term results (13 year and annualized returns since 2007) are the only positive results amongst comparables.

## OUTLOOK

Escalator up, elevator down. This has been a saying used for a long time in the markets and it feels appropriate now. The reality is most markets are convergent. They grind higher but are prone to sharp corrections from time to time. The commodity markets acted in this way recently.

Last month, despite the January correction, we reiterated some reasons why we remained bullish long-term despite the sell-off. These reasons included:

1. The commodity to equity ratio (at right) is at an all-time low
2. Falling capex means less overall supply. This was confirmed by third party analysis.[1]

It now appears there are some datapoints indicating the coronavirus is affecting demand and economies. However, given it remains hard to predict the longevity and severity of the economic effect, we continue feel this could be overdone.

**(CONTINUED NEXT PAGE)**

1. Goldman Sachs recommends going long on commodity index, oil in 2020 https://rb.gy/d3sbna

**Chart 1** HISTORICAL GROWTH SINCE 2007

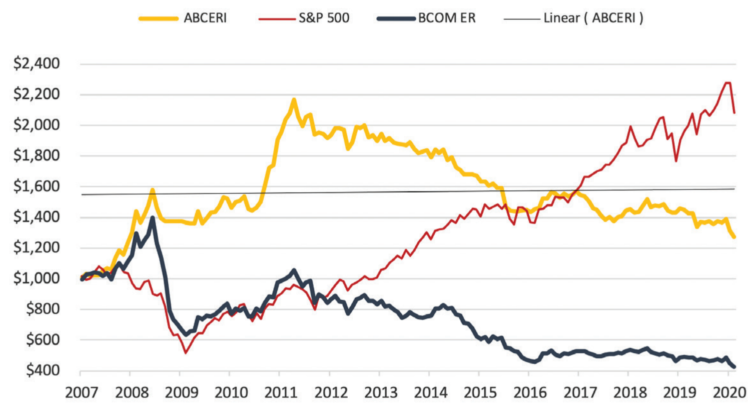
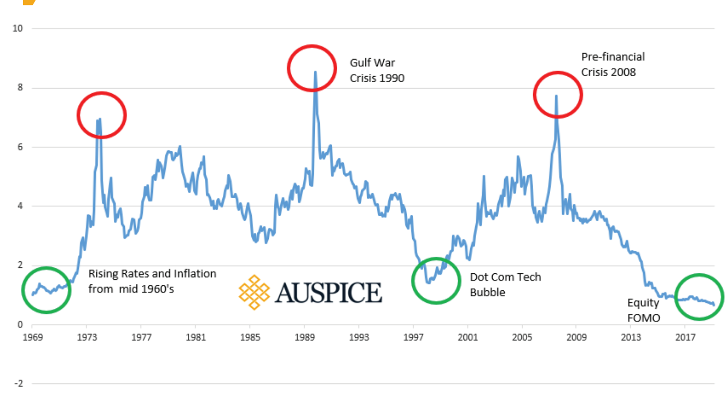



**Table 1** ABSOLUTE PERFORMANCE

| | ABCERI | BCOM ER | S&P GSCI ER | S&P 500 |
|---|---|---|---|---|
| 1 Month | **-3.02%** | -5.15% | -16.67% | -8.41% |
| 2020 YTD | **-8.22%** | -12.25% | -18.51% | -8.56% |
| 1 yr (Mar 19) | **-9.83%** | -7.29% | 3.54% | 6.10% |
| 3 yr (Mar 17) | **-15.01%** | -14.56% | 1.17% | 24.99% |
| 5 yr (Mar 15) | **-19.71%** | -25.79% | -19.72% | 40.38% |
| 10 yr (Mar 10) | **-10.21%** | -42.01% | -42.73% | 167.47% |
| 13 yr (Mar 07) | **23.33%** | -58.49% | -67.06% | 109.99% |
| Annualized (Jan 07) | | | | |
| Return | **1.86%** | -6.27% | -8.02% | 5.73% |
| Std Deviation | **10.41%** | 16.30% | 22.22% | 14.72% |
| Sharpe Ratio | **0.24** | -0.30 | -0.24 | 0.51 |
| MAR Ratio | **0.05** | -0.09 | -0.10 | 0.11 |
| Worst Drawdown | **-41.20%** | -69.54% | -81.26% | -52.56% |

GSCI TR INDEX / S&P500 RATIO




**Source:** Dr. Torsten Dennin, Incrementum AG

## OUTLOOK (CONTINUED)

However, given the market is acting emotionally and fearfully, this confirms why the tactical approach we employ is a disciplined way to participate in the commodity sector, focused on price momentum on an individual commodity merit basis. We will continue to adjust exposures, reducing risk or eliminating position until upwards momentum re-appears.

## ATTRIBUTIONS AND TRADES

After trimming a number of commodities in January, the stability that February started with was short-lived. The portfolio exited two long positions to only hold four markets.

The portfolio exited long positions in Gasoline and Cotton, with very few markets avoiding the sell-off. Sugar moved higher while WTI oil fell over 13% and Wheat dropped over 5%.

The portfolio is now long commodities in 4 of 12 components (or 33%) and includes 2 sectors - Metals and Ags (see Chart 3).

While Energy had a small loss, the majority of the negative attribution came from Metals and Ags. The sharp reversal of momentum in Silver and Cotton were the largest contributors to the negative attribution. See Chart 2.

## SECTOR HIGHLIGHTS

### ENERGY

The portfolio exited the sole long exposure in Gasoline early in the month before further weakness. This agility kept the weakest capital market sector to a few basis point loss for the month.

### METALS

The precious metals sector surprised many as both Gold and Silver ended lower on the month, much to the surprise of many commentators. We close the month long Gold and Silver but watch this sector carefully for changes.

### AGRICULTURE

While Grains had a small loss from the remaining Wheat position, Sugar continued to move higher. Unfortunately, this did not offset the sector as Cotton fell over 10% and we exited the exposure before further deterioration.

**Chart 2** INDEX RETURN ATTRIBUTION

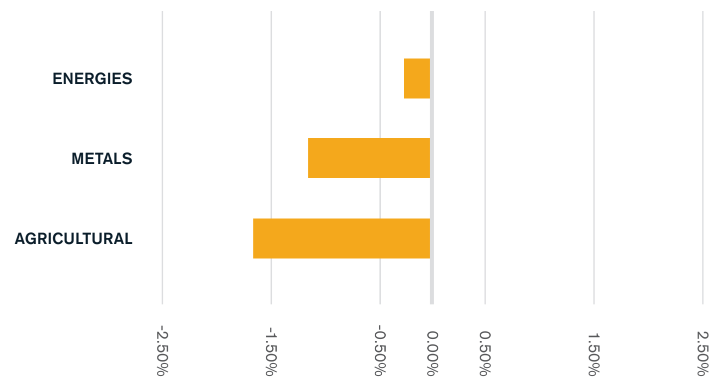
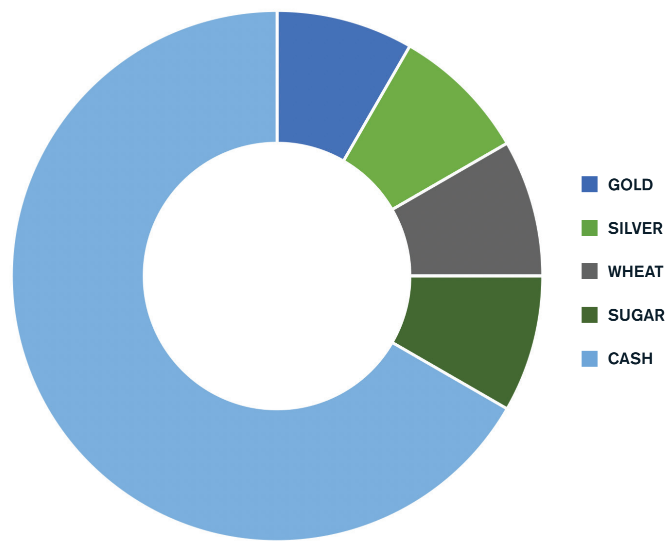



**Chart 3** COMPONENT EXPOSURE: LONG / CASH

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## WHY AUSPICE INDICES

The Auspice Indices are designed to meet the needs of investors that are looking to participate in liquid alternatives through a disciplined approach without sacrificing performance, diversification, and transparency. We believe Auspice Indices encompass everything from alpha to beta, across a return continuum. The indices blend elements of active management and indexing into a transparent, published, single strategy rules-based approach.

## STRATEGY DESCRIPTION

The Auspice Broad Commodity Index aims to capture upward trends in the commodity markets while minimizing risk during downtrends.

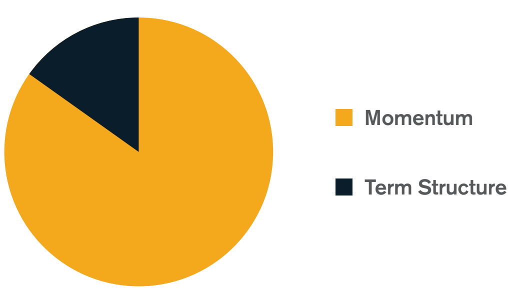
The index is tactical long strategy that focuses on Momentum and Term Structure to track either long or flat positions in a diversified portfolio of commodity futures which cover the energy, metal, and agricultural sectors. The index incorporates dynamic risk management and contract rolling methods. The index is available in total return (collateralized) and excess return (non-collateralized) versions.

### THE MAIN POINTS OF DIFFERENTIATION INCLUDE:

Auspice Broad Commodity combines tactical commodity exposure with capital preservation. We believe that traditional passive long-only commodity indices do not provide investors with an optimal long term investment solution.

- Seeks to capture upward trends in the commodity markets while minimizing risk during downtrends
- Tactical exposure to a diversified basket of commodities that can individually position long or flat (no position)
- Rules-based quantitative methodology combined with dynamic risk management and contract roll optimization to deliver superior returns

### RETURN DRIVERS




| AUSPICE BROAD COMMODITY INDEX |
|---|
| Long / Flat Approach |
| Positions can be changed on an intra-month bases |
| Accounts for Short-term Price Trends |
| Practices a Smart Roll-Yield to minimize impact of contango and backwardation |
| Broadly diversified (when exposed) and less concentrated in any one commodity sector |
| Rebalanced monthly based on volatility of each underlying commodity |

| LONG-ONLY COMMODITY INDICES |
|---|
| Long-Only Approach |
| Positions are always 100% long |
| Doesn't take into account downward price trends |
| Contracts typically roll into next contract month |
| Poorly diversified amongst single sectors |
| Most rebalance annually based on predetermined weightings for commodity sector |

### OTHER DETAILS

Calculated and published by NYSE since 2010.
Tickers: Bloomberg ABCERI, Reuters ABCERI

### PRODUCT AVAILABILITY

Licensing and/or sub-advisory of the strategy
Bespoke product design
ETFs: through partner firms
40 Act Mutual Funds: US investors through partner firms
Separately Managed Accounts

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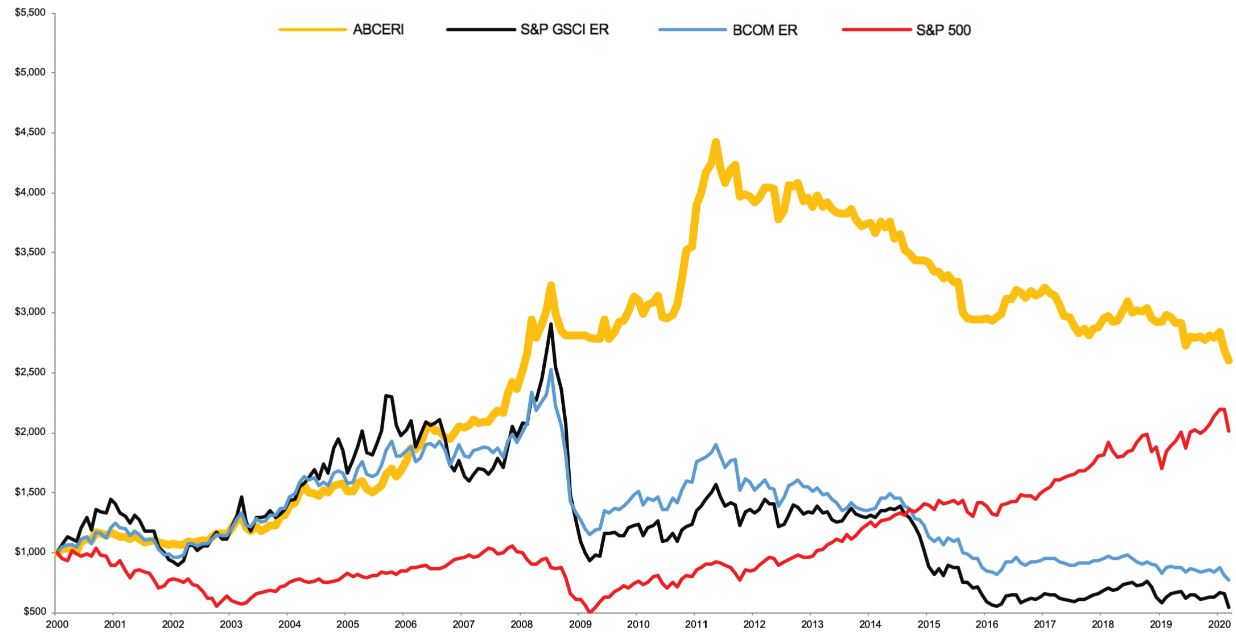
## COMPARATIVE BROAD COMMODITY INDEX PERFORMANCE




## MONTHLY PERFORMANCE TABLE*

| YEAR | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | RETURN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | -5.36% | -3.02% | | | | | | | | | | | **-8.22%** |
| 2019 | 1.74% | -0.55% | -1.44% | -0.18% | -6.28% | 2.52% | -0.27% | 0.51% | -1.08% | 1.17% | -0.71% | 1.75% | **-3.06%** |
| 2018 | 0.58% | -1.63% | 0.40% | 2.80% | 2.68% | -3.16% | 0.60% | -0.20% | 0.72% | -2.60% | -1.09% | 0.10% | **-0.98%** |
| 2017 | -1.59% | -0.44% | -2.38% | -3.08% | -0.56% | -2.35% | -2.06% | 1.31% | -1.82% | 1.74% | 0.43% | 2.78% | **-7.92%** |
| 2016 | -0.69% | 1.01% | 0.92% | 4.00% | 0.00% | 2.64% | -0.61% | -1.75% | 1.94% | -1.15% | 0.49% | 1.59% | **8.55%** |
| 2015 | -2.13% | -0.18% | -1.64% | 0.99% | -1.78% | -0.08% | -7.77% | -1.59% | -0.27% | -0.01% | 0.13% | 0.29% | **-13.45%** |
| 2014 | -2.41% | 2.68% | -1.23% | 1.27% | -3.79% | 1.03% | -3.57% | -0.96% | -1.64% | 0.00% | 0.00% | -0.54% | **-8.97%** |
| 2013 | 2.45% | -2.32% | 0.87% | -1.42% | -0.55% | -0.27% | -0.11% | 1.03% | -2.26% | -1.57% | 0.55% | 0.39% | **-3.27%** |
| 2012 | 0.90% | 2.28% | 0.09% | -0.38% | -6.43% | 2.24% | 5.41% | -0.37% | 0.82% | -3.79% | 0.64% | -1.92% | **-1.02%** |
| 2011 | 2.44% | 4.23% | -1.96% | 4.32% | -5.11% | -2.84% | 2.88% | 0.73% | -6.28% | 0.59% | -0.46% | -1.25% | **0.54%** |
| 2010 | -3.81% | 2.61% | 0.53% | 1.87% | -5.57% | -0.40% | 1.03% | 2.64% | 6.99% | 7.35% | 1.02% | 9.66% | **25.43%** |
| 2009 | 0.00% | -0.66% | -0.24% | 0.01% | 5.78% | -5.49% | 2.20% | 2.80% | 0.39% | 2.52% | 4.00% | -0.66% | **10.69%** |
| 2008 | 5.89% | 10.60% | -5.20% | 3.98% | 4.05% | 6.96% | -7.48% | -4.78% | -1.31% | 0.00% | 0.00% | 0.00% | **11.71%** |
| 2007 | 0.90% | 2.39% | -1.25% | 0.33% | 0.13% | 2.44% | 1.74% | -0.83% | 7.48% | 4.05% | -2.42% | 6.42% | **23.04%** |
| 2006 | 5.59% | -0.45% | 2.39% | 6.87% | 1.40% | -2.41% | 0.07% | -2.92% | -0.44% | 2.39% | 2.74% | -0.23% | **15.54%** |
| 2005 | 0.40% | 4.37% | 0.75% | -3.87% | -2.18% | 2.07% | 1.75% | 5.95% | 3.24% | -4.19% | 2.93% | 5.32% | **17.16%** |
| 2004 | 2.18% | 6.32% | 3.54% | -3.42% | -0.70% | -1.49% | 3.30% | -1.53% | 3.98% | 0.57% | 0.77% | -4.43% | **8.87%** |
| 2003 | 6.32% | 2.27% | -7.68% | -1.86% | 2.82% | -2.92% | 1.80% | 2.04% | 0.32% | 6.34% | 0.16% | 5.95% | **15.63%** |
| 2002 | -0.62% | -0.17% | 2.53% | -0.50% | 0.61% | 1.42% | -0.78% | 3.42% | 2.43% | -0.20% | -1.02% | 4.31% | **11.85%** |
| 2001 | -1.78% | -0.07% | -1.33% | 2.07% | -2.34% | 2.22% | 0.48% | 0.77% | -1.53% | -1.11% | -0.33% | 0.21% | **-7.04%** |
| 2000 | 2.41% | 1.08% | -0.62% | -1.93% | 8.62% | 1.29% | -0.71% | 5.78% | -0.97% | -0.86% | 2.49% | -1.77% | **15.24%** |

Represents index data simulated prior to third party publishing as calculated by the NYSE

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## IMPORTANT DISCLAIMERS AND NOTES



## COMPARABLE INDICES

*Returns for **Auspice Broad Commodity Excess Return Index (ABCERI)** represent returns calculated and published by the NYSE. The index does not have commissions, management/incentive fees, or operating expenses.

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 **S&P/TSX 60 Index** is designed to represent leading companies in leading industries. Its 60 stocks make it ideal for coverage of companies with large market capitalizations and a cost-efficient way to achieve Canadian equity exposure. Price Return data is used (not including dividends).

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Price Return data is used (not including dividends).

The **(MSCI) World Index**, Morgan Stanley Capital International, is designed to measure equity market performance large and mid-cap equity performance across 23 developed markets countries, covering approximately 85% of the free float-adjusted market capitalization in each. This index offers a broad global equity benchmark, without emerging markets exposure.

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

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 **SG CTA Index** 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.

The **Barclay BTOP50 CTA Index** seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50.

The CTA indexes do not encompass the whole universe of CTAs. The CTAs that comprise the indices have submitted their information voluntarily and the performance has not been verified by the index publisher.

### PERFORMANCE NOTES

The Equity benchmarks used in this material are intended to reflect the general equity market performance. They are shown to illustrate the non-correlated attributes versus other assets. Adding non-correlated assets within a portfolio has the potential to reduce portfolio volatility and drawdowns.

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

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