

January Review

Market Review

The ABCERI was off 2.41% in January as weakness dominated the select long weights of this tactical long/flat index. The Equity market weakness appeared to ignite some commodity rebound at month end and will be something to monitor.

Index Review

The ABCERI index is off 2.41% in 2014 year-to-date. (See Table 1) Commodity indexes had a mixed result in January but were predominantly lower.

While a difficult time for commodities, ABCERI continues to perform well. The index has produced better absolute returns and risk-adjusted returns than its peers while minimizing drawdowns. Table 2 highlights the strategy's ability to limit the downside while table 3 highlights the index ability to capture the upside.

The ABCERI does not attempt to simply track the broad commodity markets or predict their direction, but rather aims to tactically capture upward price trends from those commodities that are making sustained moves higher while protecting capital on those that are making sustained moves lower.

Portfolio Recap:

In January, the ABCERI was off in all 3 commodity sectors. (See Figure 1) While the strategy started the month with only 5 long components, it has added another market to be long 50% of the possible basket.

Energy

The petroleum side of the Energy market was volatile in January first selling off before rebounding at month end. This hurt the long weights in Gasoline and Heating Oil. Natural Gas continued to move sharply higher which partially offset this loss. There is no Crude Oil weight at this time.

Metals

The ABCERI tactically avoided long positions much of 2013. The recently added long weight in Copper was under pressure during the month as the sector became choppy. While Gold moved higher, the strategy has not yet added a long weight.

Agriculture

The Ag sector was generally lower in January. The strongest sell-offs were in Sugar and Wheat where the Broad Commodity index does not hold a position. Cotton reversed course and we have added a new long weighting. With the additional of Cotton to the existing Soybean long weight, the index is now long 2 of the 5 Ag components.



Table 1: 2014 Year-To-Date

2014	ABCERI	S&P GSCI ER	DJ UBS ER	DB LCI OY
YTD	-2.41%	-1.64%	0.29%	-2.86%

Table 2: 3 Year Annualized Performance

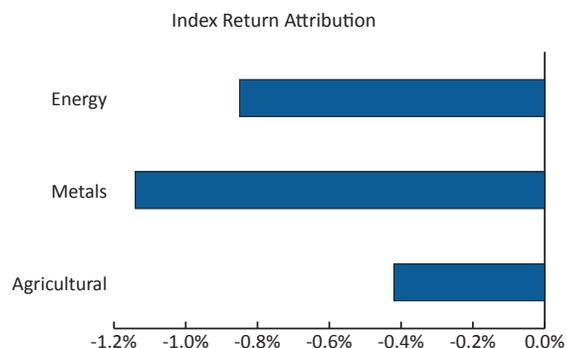
3 year Annualized Return - Ending Jan. 2014	ABCERI	S&P GSCI ER	DJ UBS ER	DB LCI OY
Annualized Return	-2.84%	-2.36%	-7.57%	-5.10%
Annual Std. Dev.	9.33%	16.83%	15.37%	16.15%
Sharpe Ratio	-0.30	-0.14	-0.49	-0.32
MAR Ratio	-0.16	-0.11	-0.28	-0.21
Largest Drawdown	17.28%	22.27%	27.30%	24.51%

Table 3: Cumulative Return since Inception

Oct. 2010 to Jan. 2014	ABCERI	S&P GSCI ER	DJ UBS ER	DB LCI OY
Cumulative Return	11.17%	8.73%	-7.71%	-1.03%

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.

Figure 1: Jan. 2014 Monthly Index Return Attribution



Outlook

It is the goal of Auspice Broad Commodity Index strategy to participate in up-trends while minimizing risk during downtrends. There have been few opportunities to participate on the upside in the last few years. Commodities generally moved lower in 2013, and this also occurred in January. However, the downside of ABCERI continues to be limited versus other strategies while waiting patiently for tactical opportunities as we have experienced recently in Natural Gas.

We continue to believe that the long term outlook for commodities remains promising and the overall trend is up. However, the last few years remind us of the importance of risk management and strategy selection as the downside needs to be managed carefully and in a disciplined manner even within a diversified portfolio. As such, strategies linked to the Auspice Broad Commodity Index, which have the benefit of tactical risk adjusted participation, may continue to outperform the traditional (long only) commodity peer groups with better upside, lower downside and reduced volatility.

While the past few years have been challenging for commodities, remaining tactically exposed has proven advantageous given the non-correlated diversification benefits. It is the continued goal of the ABCERI index strategy to minimize the downside with low volatility and drawdown and remain a store of value until upside opportunity presents itself.

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.