Auspice Managed Futures Index Commentary & Performance

Auspice Managed Futures Excess Return Index (AMFERI)

January Review

Market Review

2015 has started with a bang. Modestly volatile markets appear to be here for a while and this is widespread across financial and commodity sectors. Both equities and commodities had a bumpy start to the year, pulling back sharply while interest rates fell. This combination of movements makes it a challenging environment for fundamental approaches. However, this environment is more ideal for non-correlated strategies such a Managed Futures that are able to take advantage of trends that are somewhat counter-intuitive.

To note, sharp reversals can be challenging for these strategies as it may cause a drag as the trend definition is long term. This highlights one of the reasons why equities are not included in the portfolio which may be of significant benefit should that sector reverse.

Index Review

The AMFERI gained 1.11% in January to start the year in a good position. After the index outperformed most of the benchmarks indicated in 2014 (see Table 1), and significantly outperformed over the latter half of 2014, January has started very much in line.

Table 2 reveals that the long term outperformance of AMFERI (versus both investable and non-investable CTA/managed futures indices) has been strong despite the challenging environment in recent years. Since the launch of the index in December 2010, the AMFERI has significantly outperformed on both an absolute and risk-adjusted basis (see Table 3).

Portfolio Recap

In January, 3 of the 5 index sectors were positive while 2 were off. The AMFERI made gains in both Financial and Commodity sectors with Currencies leading the gains complimented by Interest Rates and Energies.

The index added one long commodity exposure during the month as it continued to toe-in to upwards commodity momentum. Currently 9 of 12 components (or 75%) of the possible basket are short. All other position weightings remain unchanged throughout the month.

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Table 1: Month and 2014 Year-To-Date

2015	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Jan 2015	**1.11%**	3.64*%	1.65%	4.50*%
2014 YTD	**16.55%**	12.70%	6.98%	15.41%

Table 2: 7 Year Annualized Performance

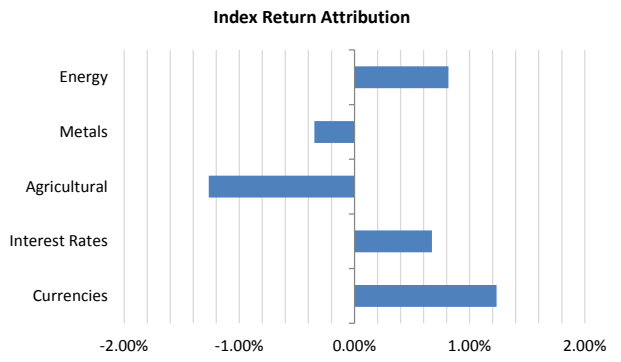
7 Year Annualized	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Annualized Return	**10.92%**	3.23%	-1.61%	3.90%
Annual Std. Dev.	**12.59%**	6.14%	8.49%	7.47%
Sharpe Ratio	**0.87**	0.53	-0.19	0.52
MAR Ratio	**0.64**	0.39	-0.06	0.33
Largest Drawdown	**17.17%**	8.34%	27.07%	11.78%

Table 3: Cumulative Return Since Inception

From Dec. 2010	AMFERI	BTOP50	S&P DTI ER	Newedge CTA Index
Cumulative Return	**29.99%**	14.14%	-1.75%	16.01%

As a single strategy investable CTA index, this strategy provides the benefits of traditional CTA through trend following and risk management along with the benefits of transparency and third party publishing, monitoring and benchmarking. The strategy now underlies ETFs, 40 Act mutual funds and managed accounts providing a low cost means of allocating to Managed Futures without sacrificing performance.

Figure 1: Monthly Index Return Attribution



Energy

The petroleum side of the Energy sector continued to fall to start 2015 which was profitable for the strategy. Natural Gas was stronger, moving sharply higher at mid-month before falling significantly to end the month. The index remains short all components at this time.

Metals

Metals fragmented as Precious metals rallied and Industrial metals fell. Gold and Silver moved higher and the index has added a long weight in Gold. However, Copper fell sharply and largely offset the rally against the short weights. Slightly negative performance on the month.

Agriculture

The Grains portion of Ags pulled back to start 2015 after leaving 2014 stronger than most commodity markets. The remaining short position in Soybeans partially offset the pullback in the long positions recently taken in Corn and Wheat. The index is short both Cotton and Sugar which were mixed on the month: Sugar rallied while Cotton fell.

Interest Rates

Rates had a solid contribution to monthly performance and the index continues to be long all sector components.

Currencies

Currencies provided the largest gains in the portfolio during January on existing shorts vis-à-vis the US Dollar and the long US Dollar Index exposure. Most components contributed positively while the short in Japanese Yen rallied for a small loss. The sector remains short across Aussie Dollar, British Pound, Canadian Dollar, the Euro, and the Yen.

Outlook

2014 illustrated the value of Managed Futures/CTA sector as an absolute return strategy that stands on its own even without equity market weakness and crisis. While 2015 is an unknown overall, we do observe a few key things: volatility appears to be persisting and may be here for some time, the equity market remains without a significant correction in many years, and commodities have sold off sharply already. Although the strategy does not participate in the equity sector, we do know it will not be a drag on the index should it correct sharply. As such, the strategy will remain patient, participating in significant trends regardless of fundamental opinion.

It is times like these that it is most important to consider the non-correlated benefits of Managed Futures as not only a way to reduce market beta, but participate in volatility and the trends that manifest.

We anticipate the strategy will continue to perform an important function if the market begins a healthy correction in price and/or volatility.

Synopsis of AMFERI Drawdown and Return Analysis.

Managed Futures is typically a difficult strategy to time because of the non-correlated performance that results from the widespread diversification of market sectors covered. One of the best ways to consider an entry point is through an understanding of drawdowns over time. Pullbacks occur in every strategy, however given transparency of the returns, it is intuitive to analyze the character of the pullbacks and subsequent gains with managed futures. These pullbacks generally represent an opportunity from which trends develop and extend. Furthermore, the time to make new gains is often quicker than the length of the pullback (peak to valley).

Please contact us at info@auspicecapital.com for the complete analysis.

Strategy and Index

The Auspice Managed Futures Index is an investable single strategy CTA. The index aims to capture upward and downward trends in the commodity and financial markets while carefully managing risk. The index uses a quantitative methodology to track either long or short weights in a diversified portfolio of 21 exchange traded futures which cover the energy, metal, agricultural, interest rate, and currency sectors. The index incorporates dynamic risk management and contract rolling methods.
The index is available as either a total return index (includes a collateral return) or as an excess return index (no collateral return). Auspice is an innovative asset manager that specializes in applying formalized investment strategies across a broad range of commodity and financial markets. Auspice's portfolio managers are seasoned institutional commodity traders. Their experience, trading one of the most volatile asset classes, forms the backbone of their strategy for generating profits while preserving capital and dynamically managing risk.

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.