



SUPERFUND
THE FUTURE OF INVESTING

NEWSLETTER

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The myth of drawdowns: short term losses are part of every futures fund performance

The best futures funds worldwide are known for their double-digit returns over long periods. Whether Dunn Capital Management, Campbell & Co. or even Superfund, all trend-following systems have something in common in addition to their outstanding performance: they all experience drawdowns. Drawdown periods that last over many months are an inevitable part of managed futures trading. It is even possible to prove statistically, depending on a fund's investment strategy, the likelihood that a drawdown will occur. All Superfund products have a medium and long term time horizon and can potentially generate a high performance. In order to make the "myth drawdown" more transparent for you, this special issue of the Superfund Newsletter is dedicated to this topic. You will learn about the reasons, background and the effects on your investment, and why history shows that difficult market situations without clear trends are no reason to worry.

Ups & downs: futures funds can gain double-digit returns – but occasionally you also have to face losses.

A PERFORMANCE OF 439 % IN 9 YEARS: ONLY THE RESULT COUNTS

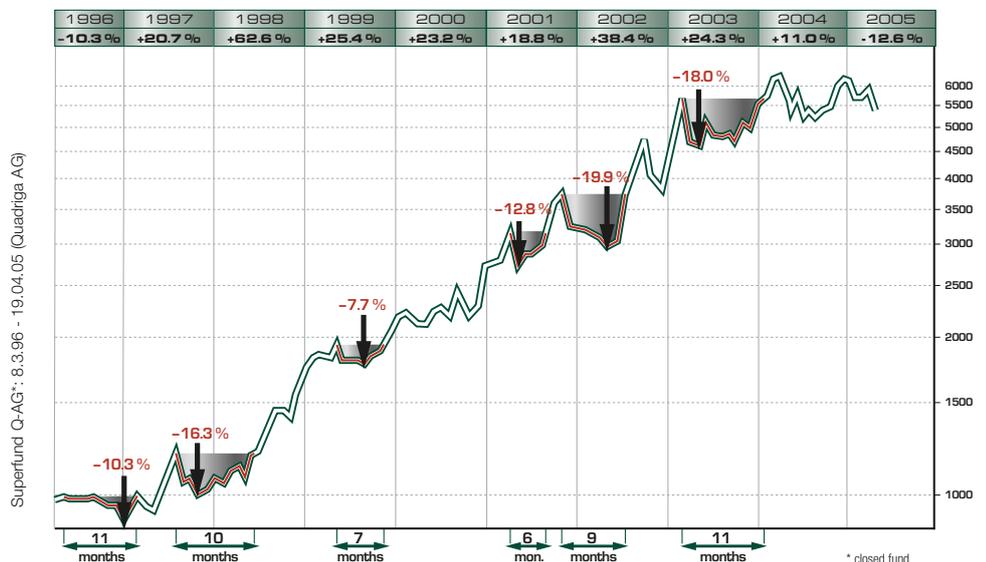
Over the past few months, managed futures funds faced hard times. Nearly all providers suffered from periods without clear trends and unexpected trend reversals. Consequently, many funds experienced major drawdowns in March and April.

Time periods where futures funds underperform are nothing unusual: there is even a statistical probability that this will occur. However, trend-following systems like the one utilized by Superfund, have achieved double-digit returns over the past years, and therefore temporary drawdowns strike even more. Looking at the past performance of some of the most successful international managed futures funds, it is evident that drawdown periods have occurred repeatedly and sometimes lasted for quite a long

time. The MAR/CISDM trend-follower sub-index shows that the longest drawdown period for futures funds lasted 28 months. This is a long time for every investor, but it is relatively short compared to stock indices like the Nikkei 225, which has been in the red since December 1989 and has lost 70 percent over that time period.

Superfund Q-AG* has an average annual performance of 20.28%, and judging from the historical chart of our fund, it is evident that this kind of performance is not possible without occasional drawdowns. In the end it is the result that counts – and that is clear. Investors in managed futures funds accept the drawdowns and volatility because they believe they will be sufficiently compensated with above average absolute returns in the long term.

How about the frequency of drawdowns? Superfund Q-AG* has achieved a net return of 439.5 % since 1996, despite drawdowns that lasted even for several months.



EDITORIAL





The price for oil is at a high – and drops suddenly. US interest rates are at a low - and suddenly soar. There are various reasons for a drawdown.

IF TRENDS REVERSE SUDDENLY

Taking a look at the current index can sometimes be quite a surprise. Why are leading futures funds worldwide in the red at times? Taking a look at the economic development in March and April helps to understand this scenario.

Even the most sophisticated trend-following system shows its limits in some situations. If there are only a few profitable trends and other situations where trends quickly reverse, the performance can quickly and significantly drop. If such periods last longer, the investor has the right to wonder how and why this happens. If you take a look at the developments on the world markets in April 2005, it is easier to understand the mechanisms behind drawdowns:

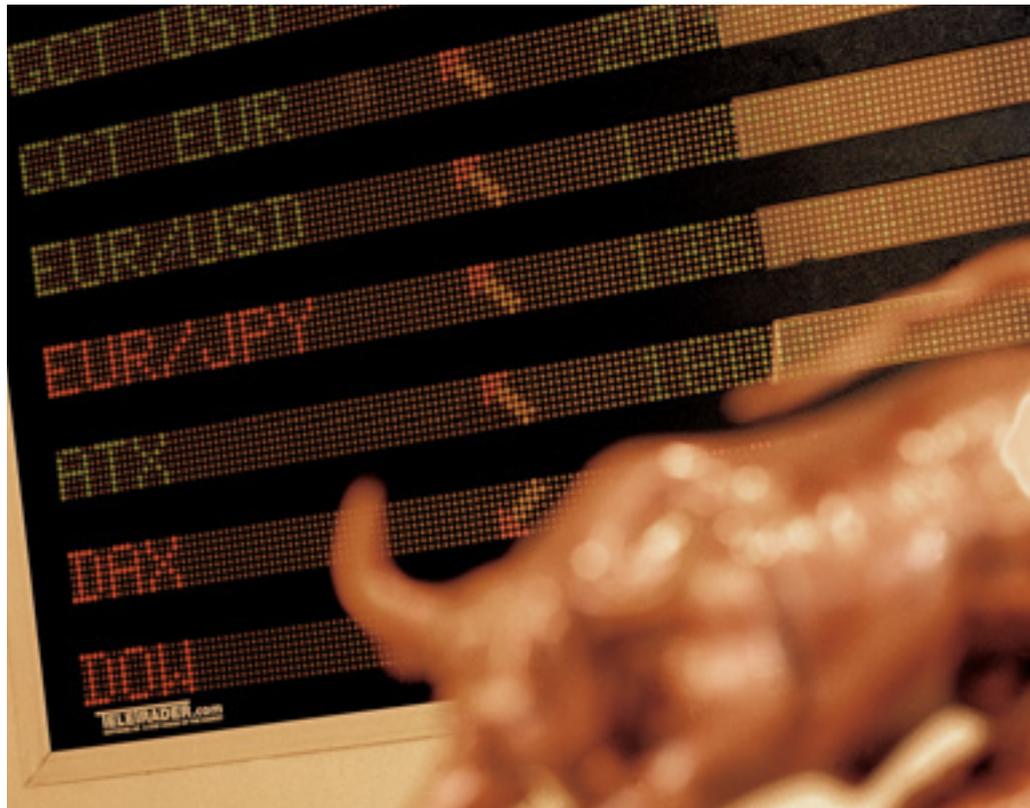
● Crude oil

The price for crude oil was at its high for most of 2004 and 2005, and reached an all-time-high of 58.28 USD in early April. Our trading system expected rising prices. Due to an unexpected trend reversal, when the price of crude oil quickly fell by nearly eight USD to 50.49 USD per barrel, our trading system was closed out of this upward trend.

● Copper

Since the beginning of the year, copper has exhibited a strong upward tendency, after China - the world's largest consumer – announced increased demand for the metal. The Superfund trading system opened corresponding positions in the market. However, in the middle of April copper dropped to a 6-week low, when actual demand was much less than anticipated, due to the weak economic situation. Consequently, we were closed out of the position.

From a purely technical standpoint, our system anticipated rising crude oil prices; when the crude oil price suddenly dropped, the system closed out the position.



Example crude oil: the system entered a position on the upward trend, but by the middle of April the downswings suddenly began. As a consequence we were closed out of the position.



Example US 5 Years Treasury Note: the trading system expected a downward development and was closed out when the trend unexpectedly reversed.

● US 5 Years Treasury Note

US interest rates (US T-Note 5 years) have been on a downward trend since the middle of 2003 and reached a low of 106.13 on March 28, 2005. Consequently, our trading system expected falling prices. Due to the trend reversal, our system was again closed out.

● TOPIX

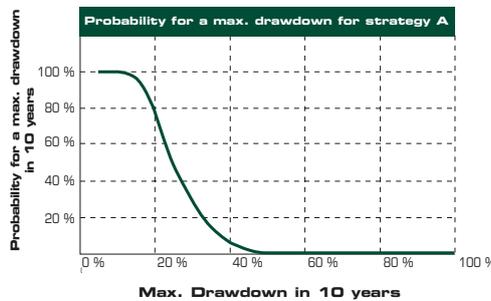
In general such sudden trend reversals trigger losses, the level of investment decreases and a drawdown starts. We are certainly not happy about this, but it is a part of the system.



A negative performance of a futures fund over a foreseeable timeframe is nothing out of the ordinary. What really counts are medium and long term results.

DRAWDOWNS CANNOT BE AVOIDED

Why do high drawdowns repeatedly occur with trend-followers? And how does this affect the investor? Here are the answers to the most frequent questions concerning drawdowns.



The probability for a drawdown can even be calculated statistically: the probability for a 20 % drawdown within 10 years amounts to 80% for strategy A (see left above), for a 50 % drawdown to 0 %. However, it is quite different with strategy C (right): A 20 % drawdown will occur with 100 % probability, a 50 % drawdown with a probability of 40 %.

How do trend-followers operate?

Computer-trading systems use technical indicators of chart analysis in order to try to determine how trends will develop. If a promising trend begins, the system enters the corresponding position on the market. If an upward trend reverses into a downward trend, the system goes short – it sells. If it is the other way around, the system goes long – it buys. Definitive trends are followed by the system as long as possible. However, if there is no trend, the system ends the position as soon as possible. Successful trends are maintained as long as possible, and the yielded profits are higher than the losses caused by negative trends, which are ended at a very early stage.

How does a drawdown occur?

From time to time, the trading system enters trends, which despite promising signals, reverse very fast. These erroneous signals may cause losses if they occur cumulatively. There is no system which can immediately and correctly identify the difference between a short term fluctuation and a big, long-term, profitable trend. In so-called sideways periods, when no clear trends can be identified, erroneous signals occur more often. As hardly any clear trends develop in such sideways periods, it is difficult to yield profits in these periods. However, the Superfund trading system trades in more than 100 non-correlated markets, and periods without trends can mostly be avoided. Problems arise when there are sideways trends in several markets at the same time. In this case, the margin of error automatically rises and a drawdown occurs. This has been the case several times over the last months.

Drawdowns and futures funds – something out of the ordinary?

Both losses and profits are part of the performance of futures funds. Even the track record of the best systematic trend-followers worldwide, such as Campbell Futures or Bill Dunn show that annual, double-digit returns can not be attained without major drawdowns. Dunn's maximum drawdowns amounted up to 52 percent – with an average annual performance of 20.85 percent from 1975 until March 2005. Over a period of 30 years, an initial investment of 1,000 USD in Bill Dunn's funds resulted in a total of 322,594 USD.

How do drawdowns affect your investment?

Historical performance shows that every drawdown ends sooner or later. The Superfund funds are among the best-performing funds over 3, 4 or 5-year periods. The Superfunds received over 40 international awards over the last years. The Superfund GCT USD* was recently ranked the best futures fund in the 5-year period (01/2000 until 12/2004) by MAR, one of the most important magazines in the alternative investment industry - with a net-return of 374 percent. This clearly demonstrates the above average success of our funds on a middle term basis.

How long will the current drawdown continue?

This cannot be forecasted. A good trend-following system has to be maintained, even in

difficult market conditions. This means that we strictly continue to execute every trade suggested by the system. However, the trading activity of the system is lower in periods without trends than in high-trend periods. New trends may develop within a very short time frame, which may lead to a new all-time-high in a shorter period of time.

What happens to the investor's assets if there are no trends and no profit can be made?

In such a case we pursue a lower investment level and enter only a few positions on the market. This leads to an automatic increase in our cash reserves, which are invested in secure government bonds – which means interest for our investors. As soon as clear trends re-develop, our trading systems will continue to enter the respective positions.

Why do the various Superfund funds exhibit different returns if the same trading system is employed for all funds?

There are two major reasons: different asset levels in the respective funds and different inception dates. New funds start with only a few million euros, whereas funds like the Superfund Q-AG*, which has a long track record, has several hundred million euros under management. This can have a negative effect on the diversification; in case of a high loss risk the system decides not to enter a new position at all with a new fund. If the fund starts in a period without trends or with significant trend reversals, the fund begins with a loss.

* closed fund

This advertisement does not represent a prospectus according to the Austrian Investment Fund Law (InvFG). The funds Superfund Q-AG (Quadriga AG) and Superfund GCT USD are closed to new investors as well as to new investments. No subscriptions or follow-up subscriptions of profit sharing rights of Superfund Q-AG and of shares of Superfund GCT USD are possible or will be accepted. According to Austrian regulations, an audited prospectus was published in the Austrian newspaper "Der Standard" as well as in "Amtsblatt zur Wiener Zeitung" on November 5, 2004 for the public offer of Superfund A/B/C EUR/USD SICAV (full name: Quadriga Superfund Futures A/B/C EUR/USD) in Austria. All prospectuses are available free of charge at Superfund Asset Management GmbH, A-1010 Vienna, Marc-Aurel-Str. 10-12 and at Erste Bank der oesterreichischen Sparkassen AG, Ms. Sabine Maister, A-1010 Vienna, Habsburgergasse 2.

Past performance is not indicative of future results. Drawdowns may occur due to market conditions and may range from 20 % to 25 % with respect to investments in Superfund A EUR/USD SICAV (full name: Quadriga Superfund Futures A EUR/USD), from 30 % to 35 % with respect to investments in Superfund B EUR/USD SICAV (full name: Quadriga Superfund Futures B EUR/USD), and from 40 % to 45 % with respect to investments in Superfund C EUR/USD SICAV (full name: Quadriga Superfund Futures C EUR/USD). Decreases in value surpassing the mentioned figures with respect to investments in all Superfund SICAV funds are possible. An investment in SICAV funds involves substantial risk and may result in the complete loss of the invested capital. Past performance of Superfund Q-AG (Quadriga AG) and Superfund GCT USD is not indicative of future results regarding other funds of the Superfund Group, particularly the Superfund SICAV funds.