



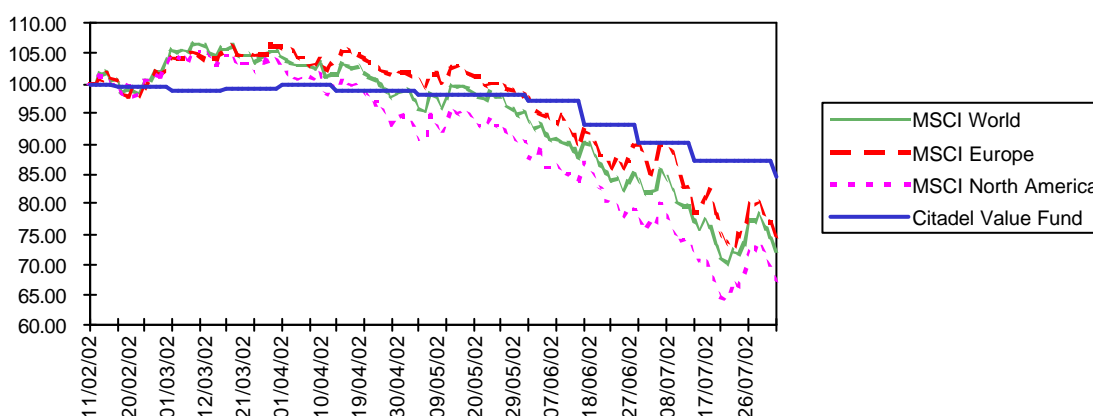
Luxembourg
August 19th, 2002

Dear Shareholders,

The Citadel Value Fund recently marked the first six months of its existence and we wish to heartily welcome all the shareholders who joined the Fund since its inception.

The last few months have been rocky ones, by any measure, for investors in the stock market. As of August 5th, 2002 your Fund had realised a performance since inception of -15.4%¹. This can hardly be described as inspiring. However, some consolation can be derived from the fact that this was markedly better than the overall world market in the same time period (MSCI World in Euro's -27.8%). Your Fund also beat markets in Europe (MSCI Europe in Euro's -25.3%) and North America (MSCI North America in Euro's -32.8%), the two regions where all of its assets are currently invested. Nevertheless, as is pointed out in the Fund's brochure, our aim is not to beat a particular index in the short-term, but to realise an attractive absolute return measured over several years. The good news is that we believe that the prospects of accomplishing that are better now than they were even a few short months ago. Never has the old saying of having more ideas than money been more true!!

Citadel Value Fund Sicav Performance (since inception, bi-weekly NAV)



¹ IMPORTANT: An investment in the Fund carries with it a degree of risk. The value of your investment may go down as well as up, and you could lose money on your investment. Past performance provides no guarantee for the future. Investors should read the fund's prospectus before deciding whether to invest.

While the Fund has suffered somewhat in the short-term from the devastation in stocks, it will actually benefit in the long-term. In fact, the current portfolio is packed with stocks snatched up at bargain prices. All were purchased at prices far below what we believe is a fair representation of the underlying companies' true worth. This has not prevented some from falling even further though. In a number of cases we took advantage of price falls to average down, buying cheap stocks at even cheaper prices.

There is certainly no assurance that stock markets will recover any time soon, and they may even fall further. But as long-term fundamental investors we have several advantages. First, the portfolio has been built-up at low prices - generally at discounts of 50% or more to our estimates of companies' intrinsic values - and new funds are being put to work at bargain prices. This should offer a measure of protection against further declines. Second, the companies in portfolio are fine businesses, generally with little or no debt, solid assets, and a proven ability to generate cash. Their future prospects are, in most cases, excellent. Where, in a few cases, the business prospects are not as good, we compensated by buying at huge discounts to the value of their assets. As partial owners of these companies, you should feel confident that stock market prices will eventually reflect the true value of the businesses themselves, as they almost always do. For if stock prices do not adjust, there is the real possibility that one or more companies will be acquired by an industrial buyer more aware of their true value. Finally, by concentrating on the long-term fundamentals of businesses we can take advantage of the low prices offered up by those pre-occupied with short-term worries - most, if not all, of which are unlikely to change the core fundamentals of these businesses.

In the meantime we are being paid a modest return as we wait for the stock market to price the Fund's holdings more rationally. Due to the low purchase prices, the average dividend yield of the companies in the Citadel Value Fund is approximately 2.75%, or roughly two-thirds the current bond yield!

The 'deacon' of value investors, Benjamin Graham, once likened the stock market to a voting machine in the short-term, and a weigh scale in the long-term. In the short-term prices are influenced by investors voting with their money by selling certain stocks, and buying others, based on their often emotionally charged perceptions of what the future will bring. In the long-term, though, stock prices are tied to unemotionally 'weighing' the performance of individual companies. When perceptions miss the mark, as they often do, the stock market will ultimately correct this.

Currently investors are 'voting' that the future prospects for companies are ugly. Certainly there are more than enough issues to worry about; an endless succession of scandals and frauds in the corporate world, the US economy which may or may not once again tumble into recession, currency devaluations in Latin America, etc.. This gloomy view of the future (and a very short-term one at that) has taken its toll on stocks. We can't hazard a guess as to when that will change, or whether a "bottom has been reached". However, we can report to being increasingly optimistic. Prices of many companies have tumbled to levels where there is a large disconnect between the fundamentals at those businesses (actually rather good in many instances, or at least not as bad as markets appear to think) and their prices. As history has shown on innumerable occasions, this situation won't last forever. Warren Buffett once wrote, "you pay a high price for a cheery consensus". The reverse is also true we believe!

At the time of writing your Fund held 22 positions, spread through a wide variety of sectors and countries. Geographically, the United States, the Netherlands, Germany and the UK accounted for the majority of investments. In terms of sectors, the portfolio is heavily concentrated in traditional 'defensive' sectors like media, pharmaceuticals, consumer products, and retail.

Many readers will notice that several of these sectors were amongst the worst performers in the past year or two. However we would hasten to add that both the geographic spread, and the sector concentration,

are solely the result of seeking out value on a company-by-company basis. Still, it is little wonder that we have found several compelling ideas in the most beaten-down sectors.

Citadel Value Fund SICAV Portfolio (as of August 5th, 2002)		
company	activity	% of portfolio
Aldeasa SA	retail	3.5%
API Group PLC	packaging	0.5%
Bristol-Myers Squibb Co.	pharmaceuticals	9.1%
Carclo PLC	plastic production	2.9%
Etabl. Fr. Colruyt SA (Halle)	retail (food)	4.1%
Grolsch (Koninklijke) NV CVA	beverages (beer)	3.9%
Grupo Continental SA	beverages (soft-drink bottling)	2.8%
Holdingmaatschappij de Telegraaf NV	media (newspapers, magazines)	3.0%
Merck & Co.	pharmaceuticals	2.7%
Merck KGaA	pharmaceuticals and speciality chemicals	6.8%
Metallwaren Holding AG	consumer durables (household & industrial appliances)	2.7%
Nexans SA	cable production	1.0%
Philip Morris Companies Inc.	food & tobacco	4.2%
Reesink NV CVA	wholesale and trade	3.7%
Southern Energy Homes Inc.	manufactured housing	0.4%
Springer (Alex) Verlag AG	media (newspapers, magazines, books)	7.7%
Syms Corp	retail	4.3%
Tamedia AG Reg.	media (newspapers, magazines)	6.4%
VLT AB B	media (newspapers)	3.9%
Weetabix Ltd. A non-voting	food	6.8%
Wegener NV	media (newspapers, direct marketing)	2.0%
Wolters Kluwer NV	media (professional publishing)	3.7%
Cash & other assets		<u>13.8%</u>
		100.0%

One such idea, which is now part of the Fund's portfolio, is Merck & Co. a leading American pharmaceutical firm. We thought it would be interesting for shareholders to read a brief description of one of the businesses in which you are indirectly invested.

Your Fund purchased shares in Merck after the stock had fallen by almost 60% from its high in 2000, to levels last seen in 1997. The pharma sector had plunged amidst wide-spread fears about growing generic competition, regulatory delays in new product approvals, and a deteriorating legal, political and social environment in the key US market. In Merck's case the shares fell even further as investors worried about its new product pipeline and several important patent expiries in coming years. A final push came in the wake of the Enron scandal when a newspaper article pointed out that the firm's managed care unit Medco had booked billions of dollars in revenues which were not truly sales. This latter scare proved to be little more than that. It is debatable whether the sales in question *were* actually sales, but the point is a moot one. The same amount that was added to sales was deducted as costs, meaning that the profit and cash flow impact was zero.

Since 1991 Merck grew its sales from \$8.6bn to \$47.7bn last year, and its operating profits from \$3.5bn to \$10.3bn – a compounded annual growth rate of more than 11%. This is a superb performance, especially considering that this growth was funded largely without the need for external capital. Short-term prospects are meagre, (profits will not grow in 2002), but few knowledgeable observers dispute the fact that growth will resume in subsequent years fuelled by \$2.5 billion in annual R&D. By 2004 our estimates show that operating profits will rise to some \$12bn or roughly \$4.90 per share. By contrast the firm's enterprise value (market capitalisation plus net debt) is \$38.40 per share. This puts the company on a multiple of less than 8X. The conclusion of our extensive analyses including a DCF model, was that a *significantly* higher

multiple would be more appropriate based on Merck's extraordinary profitability, superlative cash flow generation and excellent long-term growth prospects. It is also reassuring to know that we will be paid roughly 3%+ per year in dividends as we wait for the stock price to adjust to intrinsic value (we estimate intrinsic value at roughly double the price paid). In recent weeks, Merck signalled its own view on its stock price by announcing a massive \$10bn share buy-back.

While these are trying times for investors we are working hard to take advantage of current prices to add to existing holdings and to discover new undervalued ideas. We are busy sowing the seeds that should lead to tomorrow's performance, and will continue to report back to you on our progress.

Citadel Value Fund SICAV

The Board of Directors