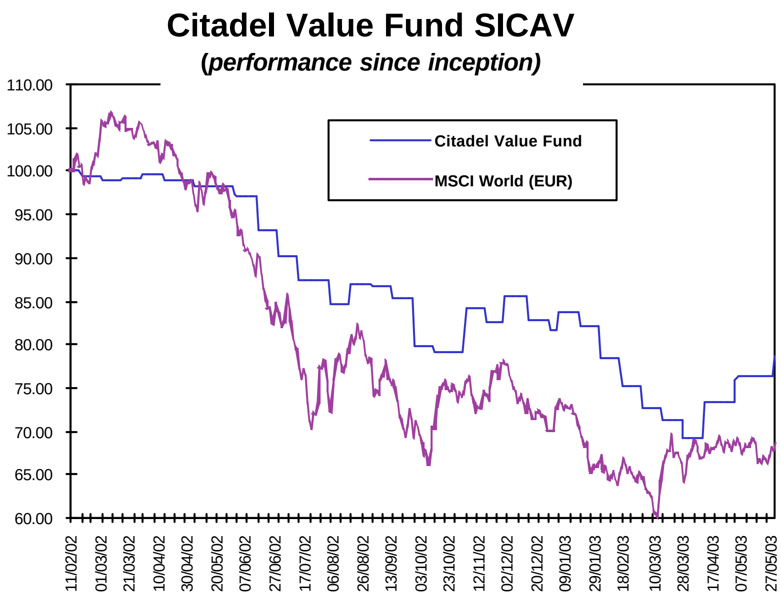
June 12th, 2003

Dear Shareholders,

2003 began poorly with a further sickening slide in stock prices world-wide. However stocks have rebounded from their lows, and now hover close to their pre-2003 levels. Your Fund continues to substantially outperform the relevant indices, as well as most other global equity funds.[1] As of May 31st, 2003 - the end of the Fund's financial year - the NAV per share was EUR 78.66, which is a decline of 21.3% since inception in Feb. 2002. That is roughly a third better than the -31.5% return of the MSCI World Index (total return in Euro's) during the same time period. Likewise, on a one-year time horizon, the Citadel Value Fund is down by 19.2% versus -28.0% for the MSCI World.



Citadel Value Fund SICAV

Performance Comparison as of 31/05/03

	Since Inception (11/02/02)	1 Year	2002*	2003 YTD
Citadel Value Fund	-21.3%	-19.2%	-18.4%	-3.6%
MSCI World	-31.5%	-28.0%	-29.9%	-2.3%

***** *for 2002 performance for all indices is from Citadel Value Fund's first NAV per 11/02/02*
N.B.: MSCI World Index is based on total returns, in Euro's
Source: European Fund Administration, Datastream

[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.

The case for stocks

As we have described at length in the past, the Citadel Value Fund does not attempt to forecast stock prices, but rather invests on a stock-by-stock basis in companies that are deeply undervalued. We remain very reluctant to predict stock markets. Nevertheless, we are convinced that many shares today represent an attractive long-term investment opportunity. With prices down in some European markets by 50-60% in the past three years, the bubble of the late 1990's is well and truly burst. Interest rates are now hovering at multi-year lows. Sadly, despite these two factors, it appears that many investors have turned away from stocks to the benefit of bonds, real-estate, or even cash. In this respect we are contrarians. We think that at current price levels it is a good moment to be increasing, rather than decreasing one's exposure to stocks.

Our reasoning is as follows. Name a common product to the average man on the street, and offer to sell it to him at a price which you know is roughly half that commonly found in stores. Even without telling him that you are selling at a 50% markdown, chances are high that he will immediately recognize the bargain he has before him. Stores regularly engage in such discount sales. As a result they usually generate far more traffic, and sell many more products, than when prices are at their normal levels. This phenomena of lower prices attracting more demand, and vice-versa, is a bedrock principle of free market economics.

Strangely, this 'logical' behaviour is not common practice in the stock market. In fact when the stock price of a particular company tumbles in price, there are more often than not fewer rather than more investors interested in investing. Prices often continue to fall therefore. The past three years is an excellent example of this. Eventually, of course, logic prevails, more buyers do step in and prices then rebound.

This paradox is all the more striking for it is, in some ways, easier to put a price tag on a company, than a product. Unlike most products in which attributes like taste, appearance, image, functional qualities and raw material costs, etc. are all important in establishing a price, stocks are simpler. Ultimately stocks are about trading money now, for money in the future. You invest money now for a small piece of a company, with the expectation that your share of the profits in that company will lead you to recoup your investment, and earn a decent return. This is true whether those profits are paid out to you as dividends or reinvested to increase the value of the company. To us nothing seems simpler than the idea that your chances of earning a decent return <u>improve</u> as prices fall.

Naturally, reality is bit more complicated than this suggests. Appraising the value of a company involves understanding what drives its business (sometimes no easy task) and making a judgement about what the future will bring. Circumstances change. Companies' fortunes also regularly change. Yet, stock prices change far more often, and rise and fall more dramatically than the fundamentals of companies warrant. This is where opportunity knocks. Investors too often get carried away with macro-economic, political, socio-economic trends and other issues which may or may not influence individual companies, and which detract from the crux of investing.

No one likes uncertainty. Unfortunately there is no traffic light for investors which indicates, well in advance, when to buy or sell equities. At the beginning of 2000 when many stocks were priced at what can only be called insanely high levels, few called for a flight from equities due to the "uncertainty" ahead. Of course, as most saw it then, there was no uncertainty. Stocks were flying, economies were performing well, and there were few geo-political worries. Yet in the three years since, we experienced a war in the Middle East (2 by some counts), recession struck most industrialised countries, deflation is feared, and terrorism rose its head, to name just a few concerns. Many today agree that the future is very uncertain. However, beyond stating the obvious - that the future is by definition uncertain - the experience of late 1999 and early 2000 proves once again that the present is usually a poor indicator for the future. The lesson we draw from 2000 and other moments in history is to ignore these 'macroeconomic' factors in investment decisions, and concentrate on what we are actually buying, pieces of individual companies at a certain price.

The value philosophy of investing offers one solid protection against uncertainty by focusing on valuation. Pay a low price for a company's stock and your chances have markedly improved that possible future disappointments are already factored in. Simultaneously a low price leaves upside potential should events turn out, as they often do, better than expected.

Between January 2000 and May 31st, 2003 the MSCI World index, which is a broad reflection of global stock markets, fell by 45.4%. Without knowing anything about what the future would bring, a value-minded investor could easily have concluded in January 2000 that stocks were over-valued. Likewise, today, broad swathes of many stock markets in the world appear under-valued, although this is less pronounced than when markets were at their lows in March. It simply doesn't make sense to us that a company which was seen as a good investment in 2000 and which had profits of 10 and a market value of 100 should be seen as a bad investment in 2003 with profits of 10 and a market value of 50. Nevertheless examples of this sort abound.

European shares look substantially cheaper to us than do American ones, but good value can be found in many markets. And, in contrast to the past number of years, value has emerged in the shares of some of the world's biggest and best corporations. This suggests to us that the long-term outlook for stocks in general has greatly improved. Predicting when stocks will reflect this is a task we will leave to others, but there is no doubt in our minds that the chances of once again seeing positive returns from stocks (albeit much lower than those of the late 90's) have risen dramatically.

Citadel Value Fund Sicav Portfolio (as of May 31st, 2003)

company	activity	% of portfolio
Aldeasa SA	retail (speciality - airport shops)	4.0%
Altria Group Inc. (Philip Morris Co.)	food & tobacco	3.3%
API Group PLC	packaging	0.5%
Aventis SA	pharmaceuticals	2.1%
Bristol-Myers Squibb Co.	pharmaceuticals	8.7%
Brunel International NV	temporary employment	1.2%
Carclo PLC	plastics production	2.1%
Compagnie Financiere Richemont AG	luxury goods	3.1%
Etabl. Fr. Colruyt SA (Halle)	retail (food)	4.7%
Grolsch (Koninklijke) NV	beverages (beer)	4.1%
Grupo Continental SA	beverages (soft-drink bottling)	3.0%
Havas SA	advertising	2.5%
Holdingmaatschappij de Telegraaf NV	newspapers	2.4%
Merck & Co.	pharmaceuticals	2.9%
Merck KGaA	pharmaceuticals and speciality chemicals	9.3%
Metallwaren Holding AG	consumer durables (appliance production)	3.4%
Nexans SA	cable production	0.9%
Reesink NV	wholesale and trade	3.6%
Southern Energy Homes Inc.	manufactured housing	0.4%
Springer (Axel) Verlag AG	newspapers	7.1%
Syms Corp	retail	3.8%
Tamedia AG Reg.	newspapers	6.9%
VLT AB	newspapers	3.5%
Weetabix Ltd.	food	6.1%
Wegener NV	newspapers	2.8%
Wolters Kluwer NV	professional publisher	3.8%
Cash & other assets		3.9%
		100.0%

Citadel's portfolio

The portfolio of companies held by your Fund is virtually unchanged since the last interim report. This inactivity is a reflection of the fact that we remain very satisfied with the prospects and values of the companies in portfolio. We continue to monitor these companies actively while searching out new bargains. Most of the Fund's companies are performing in line with our expectations, despite a tough operating environment in many industries. Taken as a whole, the Citadel Value Fund's portfolio of 26 companies is currently trading at well less than 50% of what we conservatively estimate its intrinsic value to be. This gives the Fund both down-side protection, and considerable up-side potential in the coming years we believe.

The investment case for Altria

Past letters have described the investment case behind one or more of the Funds' holdings. We wanted to continue that tradition, and this time chose one of the Citadel Value Fund's most controversial picks, **Altria** (formerly Philip Morris). Altria is comprised of three main businesses, each of which is a huge company in its own right; US tobacco (Philip Morris USA), International tobacco (Philip Morris International), and Kraft Foods. Combined these companies have literally dozens of brands with sales of more than U$100m, they enjoy strong market shares in almost all their markets, and generated an astounding U$16 billion in pre-tax operating cash flow last year. By any measure, Altria is truly an awesome collection of businesses. However it suffers as all will know from one major weakness; American tobacco litigation.

The uncertainty concerning law suits has pressured the share price for years. This is not so surprising if one considers the numbers involved in several of the largest cases (*Engle* $145bn., *Boeken* $3bn, *Bullock* $28bn, *Price* $10bn). A very real fear of many investors is that the company may simply be litigated to death. In analysing Altria therefore, two issues are of key importance; is there a risk of bankruptcy, and is there sufficient value in the company to compensate for possible claims while still leaving the possibility of a good return for shareholders?

The shares have performed very poorly in the past 6 months, yet we are convinced that the Fund's investment in Altria will prove to be a profitable one. Despite occasional mega-claims, and accompanying newspaper headlines, the threat of bankruptcy is negligeable. In fact, to date the US tobacco industry has paid out extremely little notwithstanding the hundreds of cases it has faced. The costs of litigation, while high, are easily borne by the extraordinary profitability of the business. In two recent cases with massive damage awards (*Boeken & Bullock*) which grabbed front-page headlines, the damages were subsequently slashed by higher court justices (from $28 billion to $28 million in one case, news of which did <u>not</u> grab headlines!). And both cases are proceeding to appeal. In May, in a land-mark case (class action suit *Engle* in which a claim of $145 billion was originally awarded against the industry), a higher court threw out the earlier verdict. The judges stated that not only was the earlier trial unfair and riddled with errors, but that mass trials in which thousands of plaintiffs participate (known as class actions) were inappropriate for tobacco litigation. They also ruled that the 'punitive' damage award in this case was "astronomically excessive", was bankrupting under the law (which is not legal) and was, in any event, precluded by virtue of a 1998 settlement between the industry and the states. This decision is likely to have profound, and positive, implications for future litigation against the industry. Furthermore, despite persistant non-smoking policies, governments at all levels in the US have powerful incentives to protect the industry. The huge tax and other payments the tobacco industry funnels into government coffers make it one of the largest contributors to government finances. Nor do governments wish to see the demise of an industry which employs hundreds of thousands, or see the transformation of a legal market into a black market.

Of course, barring bankrupty, litigation could still sap much of the value from Altria, making its' shares a poor investment. However, we believe that the extremely low valuation of the stock provides plenty of protection against that possibility, while leaving ample room for good returns. Consider the following.

Numerous transactions in both tobacco and food have occurred in the past few years. Taking those multiples, (and conservatively applying a sharp discount despite what we would argue are superior assets), we calculate that the value of PM International and Kraft Foods <u>exceeds</u> the total market value of Altria including its third major leg, PM USA. This implies that investors are actually being *paid* to invest in its US tobacco business, a company which generated $5 billion in operating profits last year. This strikes us as overly pessimistic. PM USA could, if needed, afford to pay huge amounts in claims, and still remain a valuable property for shareholders. In addition to its high profitability, the company has an extraordinary ability to pass on costs to consumers in the form of higher pricing. After signing the 1998 settlement agreement the company did just that, passing on an amazing $5 billion in annual payments to consumers. Prices rose sharply, and volume declines accelerated as a result, but profitability was maintained. A valuation for PM USA of less than zero seems to us, therefore, to be ludicrous.

Litigation risk, although the outlook has sharply improved in the past couple of months, will remain. Consequently, valuation levels for Altria will almost certainly remain below what they would be if based on its cash generation ability alone. In the past 10 years, Altria's value per share grew at a compound rate of nearly 7% (while returning cash to shareholders) due to high returns on capital, intelligent re-allocation of profits to generate growth, and large regular share buybacks. Even if valuation levels were to remain at their current rock bottom levels, we calculate that shareholders could see a retum of some 50% within 3 to 4 years as the shares track the increase in Altria's intrinsic value, and as generous cash dividends are paid (current yield 6%). Needless to say, that return would be considerably higher if even a portion of its current discount to intrinsic value is eliminated as we are convinced is warranted!

While Altria has issues that are unique to it, its sound finances and low valuation are shared by the other 25 companies in the Fund's portfolio. However horrific the past few years have been to investors in stocks, we cannot help but feel a growing optimism for the future. Overall equity valuations have fallen to levels where many companies look undervalued, and that is certainly the case for the companies held by your Fund. We are very pleased with the number and quality of the new ideas that our research is uncovering, and won't hesitate to add holdings where opportunities exists, and funds allow.

The Board of Directors

Citadel Value Fund Sicav