

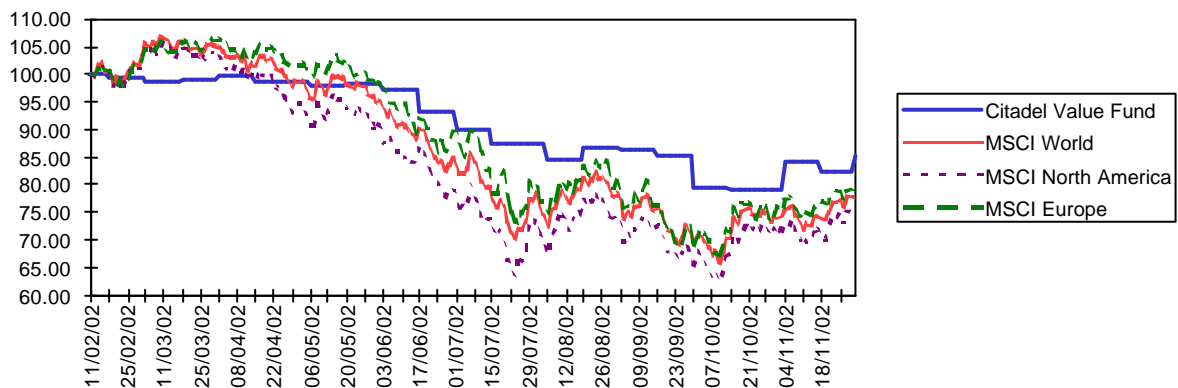


Luxembourg,
November 30th, 2002

Dear Shareholders,

2002 is shaping up to be one of the worst years in stock market history. After what can only be described as a disastrous summer, markets recovered somewhat from their lows, but are still well down on the year. As of November 30th your Fund had a Net Asset Value per share of EUR 85.44, which leaves it down by 14.6% on a per share basis since inception.¹ During the same period the MSCI World index in Euro's fell by 22.3%, while the MSCI North America index dropped by 25.1% and the MSCI Europe by 20.9%.

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



One of the consequences of the Citadel Value Fund's investment philosophy is that it's performance will broadly follow trends in stock markets - certainly in rapidly falling or rising markets - but not mirror them. Several positions were added to the portfolio recently, but it still consists of only 26 different companies. This compares to the thousands which are listed on the North American and European exchanges, and which are represented in various indices. The performance of "stock markets" is really only a reflection of the performance of *many* individual stocks, but *not all*. At any particular moment some are falling in price, others are stable, while yet others are rising. The fact that your fund has held up relatively well in a period when stock prices plunged, reflects that. While a number of

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 funds's prospectus before deciding whether to invest.**

holdings are well down, others actually rose in price. As an example, your fund's position in the US clothing retailer **Syms**, bought shortly after the fund began, is up by some 10% despite the carnage on stock markets and a dramatically lower US dollar. More than any single factor this reflects the low price paid which was less than 40% of the book value. Another investment, pharma producer **Merck & Co.**, has jumped by some 40%. After hitting multi-year lows, that company has had some good product news and benefited from a growing recognition that valuation levels were absurdly low.

A question we often hear is "when will markets recover?". Unfortunately we can't give a satisfactory answer to that question. Nor do we think that others can. After all, how many 'experts' have successfully predicted the market in the past? Furthermore, as we alluded to earlier, we don't actually think that it is very important to know how stock markets will fare in order to achieve good returns when investing in stocks. The market is, at the end of the day, a mix of many different stocks. However, it is important to make informed judgements about the prospects of individual businesses and their price/value relationships when selecting stocks. Stock prices are ultimately driven by these fundamentals, and not by how other stocks perform. In the longer-term, the cheap prices paid and sound business outlooks of the 26 companies in the Citadel Value Fund's portfolio lead us to optimism. Rather than worrying about the unknowable (in other words, if and when markets will rise or fall) and trying to time purchases and sales accordingly, we will continue to concentrate on doing what is possible, picking healthy companies at deep discount prices.

To illustrate, it is perhaps useful to read about how the fund implements this in practice. Your fund has numerous holdings in newspaper publishers. As the CEO of one of these companies remarked, newspapers are experiencing one of the worst business environments since the second World War. Unsurprisingly, their stock prices have fallen precipitously leading to very low valuations. After researching and analysing many of these companies in both Europe and North America, your fund invested in five of them, each chosen individually. The most important conclusion of our analysis was that the underlying health and longer-term prospects of these five companies were good, and that current difficulties were temporary. Nevertheless, since investing their stock prices have dipped further, due partly to the dramatic fall in stock markets and partly to ongoing bad news on advertising spending which makes up a major portion of newspaper's sales and income. Your fund took advantage of this by adding to holdings at even lower prices. Should stock markets sprint ahead the share prices of the fund's newspapers will undoubtedly also rise. However the key to performance of these stocks lies in a recovery in the advertising cycle, and not simply a recovery in stock markets.

To better understand our enthusiasm for the investment potential of these newspaper stocks, it is therefore interesting to consider their business fundamentals. All five firms enjoy remarkable consumer loyalty in the markets where they are active, and good underlying profitability. The German newspaper company **Axel Springer** is, for example, the publisher of *Bild*, the second largest newspaper in the world, and owner of several other large newspapers and a huge stable of magazines. **Telegraaf** publishes its namesake paper which has more than twice the circulation of the next largest newspaper in the Netherlands, in addition to a host of regional newspapers, door-to-door papers, and several magazines.

In analysing newspapers' profitability, it is important to remember that they have a 'fixed' cost structure. The costs of publishing, printing and delivering newspapers don't fall much even if a large portion of the sales dry up. This is exactly what happened in the past couple of years as advertisers cut their budgets to save money, and as the IT bubble burst. With fewer ads, and lower prices for the remaining advertisements, newspaper profits were squeezed. Advertising is known for being notoriously cyclical, but it continues to grow longer-term. Advertising budgets expand quickly when companies again expect growth. And just as profits plunged when advertisers cut back, they will soar when advertisers start to spend again. When this will happen is difficult to predict, but happen it will.

All the companies in the portfolio took advantage of the current batch of poor results to convince unions and employees of the need to cut costs and to undertake restructuring. A number such as **Tamedia**, **Telegraaf** and **Wegener** jettisoned loss-making internet operations, and several cut-back on low-return printing businesses. As a result these firms will be even more profitable than they were several years ago, once advertising sales increase.

When the fund invested in these companies the price/value relationships were extraordinary. Take the example of Axel Springer. Including debt and several financial stakes the price paid per share was equivalent to paying roughly

EUR 1.75bn for the entire company. EBITA (earnings before interest, tax, and amortisation) hovered around the EUR 200-250m mark in 1998 to 2000, but plunged in 2001 on the back of falling advertising sales. 2002 will also be poor, but we estimate that Axel Springer's EBITA should reach circa EUR 300m by 2004/05 on fairly cautious assumptions. At even 12 times EBITA (2004/05) - and acquisitions are routinely done at far higher multiples - this would amount to a price of EUR 3.6bn, or twice the price paid! At current prices the discount is even larger. Needless to say, there are few companies amongst the thousands listed which are so deeply undervalued!!

A company such as Axel Springer may escape the attention of investors at a moment when its profits are decimated by a cyclical down-turn. However, when results start to visibly improve the sheer level of undervaluation will become obvious for all to see. The probability that the stock price will rise in concert is high, almost irrespective of how stock prices fare generally. In the meantime we feel very comfortable knowing that Springer's business and deep undervaluation provide solid reasons why its stock should eventually outperform most other stocks.

Citadel Value Fund Sicav Portfolio (as of November 29th, 2002)		
company	activity	% of portfolio
Aldeasa SA	retail (speciality)	3.3%
API Group PLC	packaging	0.5%
Aventis SA	pharmaceuticals	2.4%
Bristol-Myers Squibb Co.	pharmaceuticals	10.6%
Brunel International NV	temporary employment	1.2%
Carclo PLC	plastics production	2.8%
Compagnie Financiere Richemont AG	luxury goods	4.0%
Etabl. Fr. Colruyt SA (Halle)	retail (food)	4.3%
Grosch (Koninklijke) NV	beverages (beer)	3.4%
Grupo Continental SA	beverages (soft-drink bottling)	3.0%
Havas SA	advertising	3.1%
Holdingmaatschappij de Telegraaf NV	newspapers	2.4%
Merck & Co.	pharmaceuticals	3.4%
Merck KGaA	pharmaceuticals and speciality chemicals	8.3%
Metallwaren Holding AG (part. Scheine)	consumer durables (appliance production)	3.0%
Nexans SA	cable production	0.9%
Philip Morris Companies Inc.	food & tobacco	3.2%
Reesink NV	wholesale and trade	3.7%
Southern Energy Homes Inc.	manufactured housing	0.4%
Springer (Alex) Verlag AG	newspapers	7.2%
Syms Corp	retail	4.3%
Tamedia AG Reg.	newspapers	6.8%
VL T AB B	newspapers	3.1%
Weetabix Ltd. A non-voting	food	5.9%
Wegener NV	newspapers	2.3%
Wolters Kluwer NV	professional publisher	4.1%
Cash & other assets		<u>2.5%</u>
		100.0%

The long-term return on stocks continues to beat almost all other investments, although that is easy to overlook at the moment. With a disciplined and selective value strategy, and a portfolio of fine companies bought at low prices, your Fund is well positioned to deliver good returns in future. We hope to report back to you next year with happy tidings, but for now wish you all a very Happy New Year!!

the Board of Directors
Citadel Value Fund SICAV