

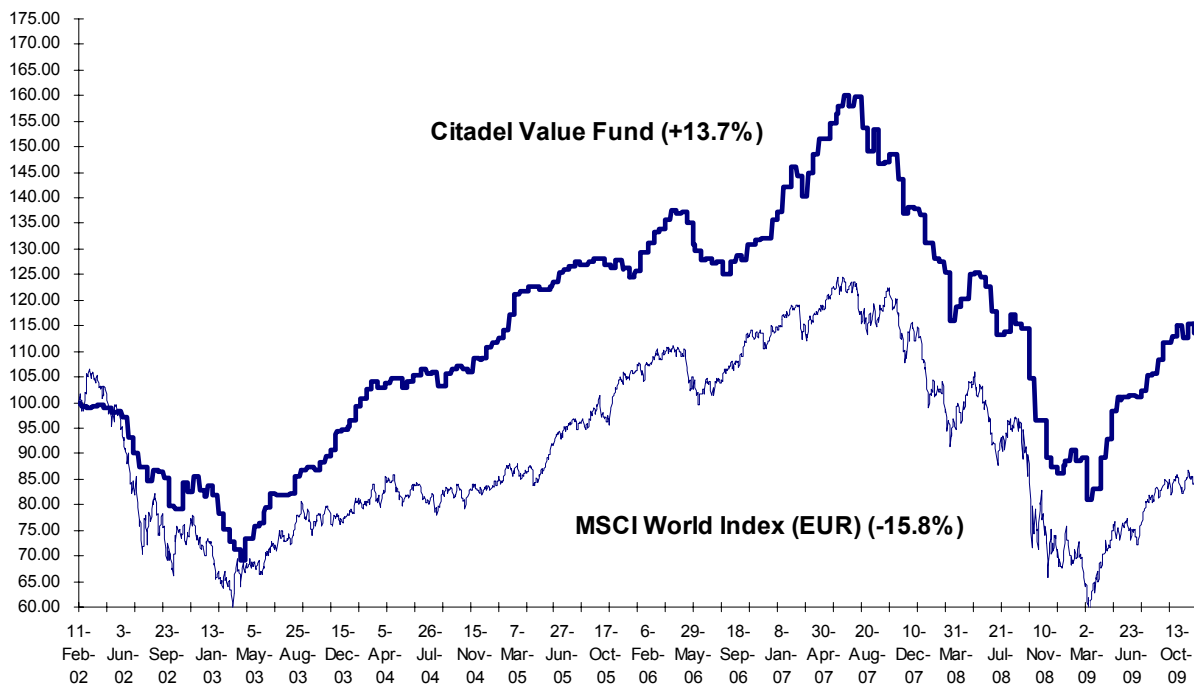


Dear Shareholders,

At the end of Citadel's financial first-half year on November 30<sup>th</sup> the NAV per share was EUR 113.67. After a nervous few months up until mid-March confidence returned and stock markets enjoyed a powerful recovery. Historically this has been a standard pattern in the wake of major stock market corrections – and the collapse of stocks from June 2007 to March 2009 certainly qualifies as that. Since the beginning of the calendar year Citadel's NAV is up by 29.5% whilst the MSCI World Index in Euros rose 18.9%. This brings the 'since inception' return of the Fund to +13.7%. During the same period the MSCI World Index's performance remains negative at –15.8% demonstrating what a difficult period the last 7 odd years have been for the investor in stocks. Although we are not satisfied by the absolute return of the Fund during this period we are pleased that the performance has been consistently better (almost 4% per year) than equity markets overall.

### Citadel Value Fund

*(performance since inception to November 30th, 2009)*



**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 opinions and commentary expressed herein should in no way be construed as personal investment advice, they are intended solely to illustrate the Fund's investment strategy and performance.

**Citadel Value Fund Performance**  
(as of November 30th, 2009)

	Since inception (11/02/02)	2009 YTD	2008	2007	2006	2005	2004	2003	2002
<b>Citadel Value Fund</b>	13.7%	29.5%	-35.8%	-0.5%	9.7%	12.0%	17.2%	17.0%	-18.4%
<b>MSCI World Index</b>	-15.8%	18.9%	-37.2%	-1.2%	7.9%	26.8%	6.9%	11.3%	-29.9%
<b>+/- vs. index</b>	29.5%	10.6%	1.4%	0.7%	1.8%	-14.8%	10.2%	5.7%	11.5%

note: MSCI World Index based on total returns (gross dividends) in Euro's

\* annual returns are based on Citadel's estimated NAV as of Dec. 31st, out/underperformance figures may differ due to rounding

source: European Fund Administration, MSCI

**Portfolio news**

During the past 6 months from the time of the last letter to shareholders we continued to refine and improve the portfolio. Currently it consists of 33 companies, the same as at the end of May. While we carefully husbanded the Fund's cash during the past year, and freed up funds from selling 'fairly' valued holdings, we have to admit to being disappointed at not being able to buy even more companies at the bargain prices prevailing early in 2009. Unfortunately, where the will existed the firepower did not. Experience once again shows that at the moments when stocks are most attractive, the fear that they will fall further is a powerful psychological barrier deterring most investors from investing. In contrast to many funds; however, Citadel did benefit from the fact that the overwhelming majority of shareholders stayed the course. As a result we were not forced to sell deeply undervalued holdings to meet redemptions.

<b>Portfolio Changes</b>
<b>May 31st 2009 to November 30th 2009</b>
<b>Holdings bought or added to</b> Bijou Brigitte Modische Accessoires AG Coltene Holding AG Kuoni Reisen Holding AG Pronexus Inc.
<b>Holdings sold or acquired in a buy-out</b> Canadian Natural Resources Ltd. Carclo PLC Ozeki Co. Ltd.

A welcome side-effect of the crisis was that we were able to make some further improvements to the overall quality of the portfolio that Citadel owns. Stock prices fell such that even many fantastic businesses with iron-clad balance sheets were available at knock-down valuations, of the sort we can normally only dream of. In the past six months we added to one holding, **Bijou Brigitte**, and made 3 new additions to our stable of companies. The first is **Coltene**, a Swiss producer of dental supplies which we'll describe in a little more detail later in this letter. Also hailing from Switzerland is the travel agent **Kuoni**. Kuoni is specialised in arranging premium, more complicated trips such as safaris. Unlike its listed competitors it has an 'asset-light' business model meaning it doesn't own extensive numbers of aircraft or hotels, etc. These are not only expensive to own but also to operate. When travel demand falls (as it has done) operating unfilled aircraft and hotels can be devastating to profits. While Kuoni's sales and

profits are noticeably under pressure it remains profitable. Furthermore, it benefits from a healthy balance sheet and has net cash. Looking past the current cyclical downturn we are confident Kuoni will once again deliver sales growth, solid margins and an excellent return on capital. We picked up the stock at a mere 2.5X trailing EBIT – a valuation that assumes travel demand will never recover – an excessively pessimistic assumption in our view.

<b>Portfolio Holdings</b>		
<b>(as of November 30th, 2009)</b>		
<b>company</b>	<b>activity</b>	<b>% of portfolio</b>
Companhia Paranaense de Energia (COPEL), ADR	utilities (hydro-electric power)	5.6%
GS Home Shopping	speciality retail (TV home shopping network)	5.0%
Continental (Grupo) SA	consumer goods (soft-drink bottling)	4.4%
Clinton Cards PLC	speciality retail (card shops)	4.4%
Zwack Unicum	consumer goods (spirits)	4.3%
SK Telecom, ADR	telecommunication services (mobile)	4.0%
Bristol-Myers Squibb Co.	pharmaceuticals	4.0%
Nongshim Co.	consumer goods (food & beverages)	3.6%
Village Super Market Inc	retail (supermarkets)	3.5%
Nongshim Holdings Co.	holding co. (Nongshim, packaging, ingredients)	3.2%
Signaux Girod SA	industrial goods (traffic signs)	2.9%
Dewhurst PLC. -A- Non Voting	industrial goods (lift panels & controls)	2.9%
Belgacom NV	telecommunication services (fixed & mobile)	2.9%
Heineken Holding NV	consumer goods (brewing)	2.9%
Daekyo, preferred	consumer services (education)	2.9%
Hanil Cement	materials (cement production)	2.8%
Springer (Axel) Verlag AG	media (newspapers, magazines, internet)	2.5%
Pronexus Inc.	business services (printed & electronic filings/reports)	2.5%
Toyota Industries	industrial goods (forklifts, engines, auto's & parts)	2.2%
Bull SA	information technology (computers, services)	2.1%
Telecinco, Gestevisión SA	media (TV)	1.9%
Pioneer Natural Resources	energy (oil & gas exploration & production)	1.9%
Zehnder Holding AG	industrial goods (radiators)	1.9%
Kuoni Reisen Holding -B-	consumer services (travel agents)	1.7%
Bijou Brigitte Modische Accessoires AG	speciality retail (costume jewellery)	1.7%
Royal Reesink NV (CVA)	wholesale and trade	1.6%
Coltene Holding AG	healthcare (dental products)	1.6%
Wolters Kluwer NV	media (professional publishing)	1.4%
Tamedia AG Reg.	media (newspapers, magazines)	1.4%
Natuzzi SpA	consumer durables (furniture)	1.3%
Molins PLC	industrial goods (tobacco machinery & packaging)	1.1%
Johnston Press PLC	media (regional newspapers)	0.9%
Telegraaf Media Groep NV	media (newspapers, magazines, radio, TV, internet)	0.2%
Cash and other assets and liabilities		<u>13.1%</u>
		<u>100.0%</u>

*note: as percentages are rounded to 1 decimal point the sum of the percentages shown may differ from 100*

Finally, we also bought a position in **Pronexus**, a Japanese company which began life as a printer and which today is a specialised service provider for companies and funds to deliver financial information required for regulatory and investor relations purposes. It is by far the market leader in most areas where it competes with shares of 50-60% in producing annual & semi-annual reports, AGM notices, quarterly financial filings, etc. It is a high return, highly cash generative business with no debt, and cash reserves equivalent to a stunning two-thirds of the share price. A further positive is that unlike many Japanese companies Pronexus pays a decent dividend and is also actively buying back its own stock. The bulk of its sales are steady, reflecting the fact that companies are required to continuously disclose information to regulators and investors. However 30% of sales stem from products such as IPO documentation which have plunged along with stock markets. This has led profits to fall and the stock price with it. At only 2.2X trailing EBIT the stock suffers from an undue attention to short-term results – a common occurrence in the stock market we find. Despite its impressive margins and returns there is little appreciation for its exceptional business characteristics. We think it is massively undervalued.

Of the 3 positions that were sold the most important was **Ozeki**, our Japanese supermarket, which was acquired in a Management Buy-Out in October. While the price fell well short of our intrinsic value estimate Citadel nevertheless realised an excellent return in a fairly short period, particularly given that markets dropped precipitously during that time. We sold the remaining position in **Carclo** close to our intrinsic value estimate (half had already been sold in 2007) as well as the entire holding in **Canadian Natural Resources** bought in late 2008. Both generated good returns.

### ***Stocks at a cross-road?***

Opinions about the economy and the stock market seem more divided than ever. In the financial press there is a lively debate ongoing between essentially two camps. The first argues that the economic recovery will continue and that stocks will perform well in its wake. The second group, almost diametrically opposed to the first, suggests that a 'double-dip' is likely in which case they contend stocks would not do well. Although we don't take sides in this debate we follow it with considerable interest. In fact compelling arguments can be made on both sides.

For investors in stocks there are two fundamental problems to letting this debate influence investment strategy. The first is that correctly predicting the outcome is pretty close to impossible. Who is to say for example that economies will not follow a course entirely different than *either* of these two scenarios? It certainly wouldn't be the first time that events unravelled in a way which none had predicted. The history of the past two years ought to be proof of that. We recall for instance a survey in the *Wall Street Journal* which we wrote about last year at this time in which leading economists predicted that U.S. GDP would fall by slightly more than 1% and that the unemployment rate would peak at 8.4%. As we know now this prediction was more or less wrong by the time it was published. Rewind two years earlier and the track record is even more dismal. There were definitely a number of thoughtful economists and others who years earlier flagged many of the risks which eventually caused, or contributed to this crisis. Yet, and this brings us to our second point, many of these predictions while prescient were not complete, accurate, or timely enough to translate into an effective investment strategy.

For example some have worried for years about the indebtedness of US consumers. And understandably so. Nevertheless, the spark that set off the latest recession came from the American housing market and not the over-indebted consumer. There are hundreds if not thousands of variables which influence the global economy. And getting some or even most of them right is usually not enough to provide a solid backbone for an investment strategy. Specifics matter.

Let us assume for sake of argument that the 'double-dip' scenario described earlier arises and that an investor has accurately predicted that. Without knowing the duration and extent of any pullback in the economy, whether it is centred in one country or many, what the specific causes are, or what ripple effects are created, etc., etc., it is a major challenge to draw linkages with what the stock market will do, let alone the stock of any one company. Even a choice to abandon stocks in favour of some other asset class is not clear-cut. Other assets might very well be more adversely affected in a 'double-dip' than stocks.

This hopefully goes a way to explaining why - despite its obvious importance - we don't think that it's a very worthwhile exercise for investors to rack their minds for answers to the question of where the economy goes from here. In contrast thinking about risk is always worthwhile.

### ***Dealing with risk and uncertainty***

We think about investment risk in a straight-forward, some might even call it simplistic, way; the possibility of permanently losing money. That the price of a stock swings wildly doesn't bother us. It must be said though that this requires a long-term investment horizon. We have that, and think that all investors in stocks should as well. But if a stock price falls because the value of the underlying company has declined, then we are greatly concerned. There are legions of examples in the recent past where stock prices of a company fell, and will almost certainly never recover. In those situations your money is gone. More often than not the culprit is debt, with bankruptcy ensuing in the worst cases or painful refinancing severely diluting shareholders in the best. Debt is closely followed by irrationally high purchase prices (e.g. think Internet bubble) as a leading cause of permanent capital destruction.

If you can greatly reduce the odds of either of these two occurrences then a great deal of risk is avoided. Avoiding mistakes is ultimately a crucial component to realising good returns. To return to our discussion of economic forecasts, we don't make forecasts. We do think a lot about what various outcomes could mean to the companies Citadel is invested in, or those we are researching as potential investments. Our approach can be likened to scenario analysis. For each company we try to assess what could turn a seemingly attractive investment into a mistake if a certain economic scenario were to unfold. What would happen if sales were to fall by 25% due to a weak economy? How probable is such a fall, and under what circumstances? What would the impact of inflation or deflation be on margins and returns? What would profits do amidst sharply rising or falling raw material costs? With enough research and careful thought it is usually possible to draw well-reasoned conclusions to questions like these.

If a real chance exists that a company's profits could decline such that its debt would become a problem (breach covenants, insufficient interest cover, etc.) this is reason enough for us to discard it as an idea – irregardless of how attractive it might otherwise look. Where there are companies in the portfolio with debt they tend to be businesses where cash flows are high and which demonstrate a certain resilience even in tough economic times (two examples that spring to mind are brewer **Heineken** and professional publisher **Wolters Kluwer**). Roughly two-thirds of the companies Citadel holds have net cash, three of these have cash & investments worth more than the stock price, and almost all of the others have only minor debt.

Another major line of defence is the value philosophy which we practice. After extensive research and analysis we make a conservative estimate of a company's value. We buy its' shares only when they're selling at a huge discount to this estimated value. The margin of safety between the price paid and the value received helps to ensure that even where events take a turn for the worse (for instance economic downturn), the chance of overpaying is minimal. Our value approach again showed its worth in the past couple of years. While the current economic recession hurt almost all the companies we own<sup>1</sup>, and the intrinsic value of some declined as a result, the discount between value and historic purchase price remained large. This helped the Fund's performance this year as investors concluded that the sharp share price correction of many companies in 2007 and 2008 was not justified by their economic performance and outlook. The share prices of a number of holdings rose sharply as a result.

At 5.4X trailing Earnings Before Interest & Taxes (EBIT) - which those experienced in valuation will recognise is an extremely modest valuation - the portfolio is unlikely to look over-valued even in the most somber economic scenario. On both measures; healthy finances as well as low valuations, it is clear the portfolio is quite low risk.

### ***Perceived risks versus real risks***

We regularly field questions about the portfolio – it is after all not a run-of-the-mill portfolio. And for some the very fact that it is not 'run-of-the-mill' raises the concern that this carries with it more risk. However, we would strongly argue that a company's size, or how recognisable its name is, are unreliable proxies for its riskiness. Not so very long ago General Motors was one of the world's largest and best known corporations: in 2009 it went bankrupt. There is an understandable tendency to assume that where a company is large and/or well known it is also secure. Unfortunately that perception can be a dangerous one as investors in many fallen stars can attest to.

We prefer to build our cases from the bottom up. If a company meets our criteria that is really far more important than whether it is large or small, known or unknown. It must be said that larger companies enjoy a certain security as problems in one part of the empire are unlikely (although it does happen) to sink the ship. In practice the size advantage large companies have is often offset by other risks stemming from mediocre operations, weak balance sheets or high stock prices. We certainly don't shy away from large companies but the universe is rather small, they are followed closely by analysts and investors, and only very occasionally can they be bought at prices which we think make sense.

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<sup>1</sup> Despite this it is worth mentioning that overall the portfolio companies have come through this downturn in remarkably fine form. A surprising number have seen their profitability remain steady (e.g. Wolters Kluwer, Belgacom, Contal, etc.) or even increase (e.g. Nongshim, Bristol-Myers Squibb, Dewhurst, GS Homeshopping, etc.).

We began this section of the letter by ruminating about one of the issues which preoccupies investors; where is the economy headed? In ending we want to lay out a few characteristics of the portfolio and our stock selection process which makes the final outcome less important than you might at first think. The solid balance sheets and low valuations of the companies Citadel owns are powerful advantages in any economic scenario. However it is also important that the value of many companies have a remarkable predictability and durability. Some have powerful brands and large market shares in industries where demand is reasonably steady. Think for instance of **Nongshim** which dominates its' corners of the South Korean food market, or brewer **Heineken** which has no. 1 or 2 positions in tens of countries world-wide, or **Contal (Grupo Continental)** which is the exclusive producer of *Coca-Cola* in a large parts of Mexico. In utility-like businesses like telecoms (**SK Telecom, Belgacom**) or electricity (**COPEL**) our companies enjoy entrenched market positions and benefit from large and costly infrastructures which competitors would find very difficult to replicate. Other companies in the portfolio operate in more cyclical industries but profit from niche positioning and strong cost management that differentiates them from competitors (**Dewhurst** in elevator components, **Zehnder** in radiators). While difficult to generalise across such a range of companies and industries one common thread of the Fund's investments is that the vast majority of companies have built themselves a real competitive advantage. When the tide lifts all boats this is helpful but its true benefit comes when times are tough and weaker companies struggle to survive.

### ***Coltene***

**Coltene** as a new stake in the portfolio is an interesting case to describe for a number of reasons. For one it nicely illustrates how the strong fundamentals of an individual company can lead to greater conviction about a stock than any macro-economic forecast could. Furthermore it contains many of the characteristics which we love to find in a stock.

Coltene is not an extremely large company with only CHF 166m in sales. Yet its products are well known, and indeed essential for dentists throughout the world. It has one of the most recognisable brand names in the business. Almost 90% of its sales come from dental supplies that are regularly consumed – as opposed to large machines or instruments which may only irregularly be purchased. Dentists are fortunate in that their business doesn't fluctuate greatly with the vagaries of the economy. And as a manufacturer of the products they need this benefit flows through to Coltene. An additional feature of this sector is that there is little pricing pressure. For a dentist these products don't constitute a huge amount of his costs. Furthermore, when he is experienced and comfortable with a product there is little incentive to substitute it for another for only modest savings. Finally, the market for dental consumables has grown consistently by some 3-5% over long periods of time and we see few reasons why it won't continue to do so. These are decidedly attractive attributes for a business and particularly so against the backdrop of economic uncertainty.

In addition Coltene's margins are consistently high. Combined with only a modest need for sustaining capital this translates into impressive cash generation and returns on capital. Needless to say the balance sheet is pristine. While the company has pursued growth through small acquisitions and expansion (in emerging markets in particular), it also returns sizeable sums to shareholders. It bought back stock in the past, pays a sizeable dividend (8.5% yield last year) and has committed to continuing high payouts.

Normally this sort of company just doesn't sell at a price which we would find attractive. However in the panic selling of late last year and early this year Coltene was one of the babies thrown out with the bathwater. In April the shares took a further hit after the company warned that first quarter sales fell by 20%. The company explained that underlying demand was solid, and that the sales fall was solely a result of distributors cutting back their inventories to conserve cash, an explanation the market at first ignored or dismissed. After some work and several discussions with management we accepted this argument, and reasoned that the fall was a one-off and might even be reversed in future after the crisis had waned. We started accumulated shares at roughly 6X EBIT (higher than the fund average, but extremely low for a company of this quality<sup>2</sup>).

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<sup>2</sup> A conclusion supported by M&A prices. In 2006 a competitor we had looked a couple of years earlier was acquired for almost 16.5X EBIT.

With this background you will better understand why we think the odds are excellent that Citadel will earn good returns from its investment in Coltene despite having no clue about exactly how the economy will fare.

*A few closing thoughts*

2009 is shaping up to be quite a good year for the Fund – which is a welcome relief after 2008. Although much of this letter was written about risk, we don't want to leave you with the impression that we enter 2010 with great trepidation. If anything, we hope that by discussing how we think about risk and how that relates to the stocks in the portfolio will leave you with the same calm confidence that we have concerning Citadel's prospects.

As always we want to express our gratitude for the support and trust you give us through your investment in the Fund. This is especially true this year coming as it does at the end of a very difficult stretch. For our part we will continue to work hard to build on the gains of this year and will report back on our progress (please write to [info@citadelfund.com](mailto:info@citadelfund.com) should you not be on the email list and wish to be).

We wish you and your families a very Merry Christmas and a Happy New Year!!

Kind regards,

The Board of Directors  
**Citadel Value Fund SICAV**

December 21st, 2009