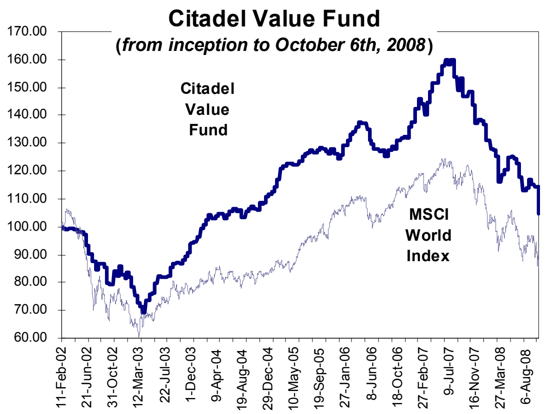
CITADEL
VALUE FUND SICAV

October 2008 Update

NAV/share (06/10/08): EUR 104.59
ISIN code: LU0141953439
website: www.citadelfund.com



Citadel Value Fund Performance
(as of October 6th, 2008)

	Since inception (11/02/02)	2008 YTD	2007	2006	2005	2004	2003	2002
Citadel Value Fund	4.6%	-23.5%	-0.5%	9.7%	12.0%	17.2%	17.0%	-18.4%
MSCI World Index	-15.5%	-25.1%	-1.2%	7.9%	26.8%	6.9%	11.3%	-29.9%

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
source: European Fund Administration, MSCI

Top 10 holdings

SK Telecom, ADR	5.3%
Village Supermarket Inc, A	5.0%
Zwack Unicum	4.5%
Ozeki Corp. Ltd.	4.4%
Grupo Continental SA	4.2%
Batenburg Beheer NV	4.2%
Daekyo Co. Ltd, preferred	4.0%
GS Home Shopping	4.0%
Nongshim Co. Ltd.	3.8%
Cia Paranaense de Energia, ADR	3.7%

COMMENTARY

September and the first few days of October were atrocious for stocks. Citadel's NAV fell by 9.3% which puts its YTD performance at -23.5%. This compares with -25.1% in the MSCI World Index and -30% to -40% in most national indices. Since inception the Fund is up by 4.6% whilst the MSCI is down 15.5%.

There is a saying, oft forgotten, that in times of financial crisis correlations move to 1. It is a phenomena which only ten years ago contributed to the downfall of hedge fund LTCM. Assets, whose values are based on seemingly unrelated factors, find their prices moving in sync at times of crisis. More often than not liquidity, or the absence of liquidity, is a determining factor. Prices fall simply because few buyers exist willing to swap cash for anything. And this is true today. Whether it be packages of mortgages, credit default swaps, bonds, real estate, equities, or currencies few assets have escaped the turmoil. Even commodity prices which, for much of the year rose steadily, recently began to fall. Leverage exacerbates the problem as many banks and other institutions are finding to their dismay. Assets which were bought with borrowed funds are difficult to sell, at least at any reasonable price. On the other hand the monies borrowed are rock solid, and refinancing them is problematic – which explains the urgency of the US$700bn plan to kick-start the US banking system.

While many assets are worth less, and in some cases a lot less, fundamental factors do not entirely explain current asset prices. The absence of substantial numbers of buyers has undoubtedly led prices to fall further than rationality would suggest they should. We found it interesting in this respect that no less an investor than Warren Buffett stated that, were he able to pony up $700bn, he himself would be interested in buying the very assets the US Treasury is proposing to acquire.

Compared to banks and other leveraged parties the average equity fund has several advantages at times like these. Because the average 'plain vanilla' fund is not allowed to borrow, it need not worry that creditors will force it to sell shares at beaten down prices. Furthermore, equity funds, unencumbered by capital and other requirements, are free to hold their assets until fundamental factors again prevail in setting prices.

To turn to Citadel we like to think that we have a few advantages over and above those of the average fund. These stem from the Fund's value philosophy and how we work. We spend a great deal of time researching and analysing each investment. Where we don't feel confident that we can adequately evaluate a business we don't consider it – this explains why there are no banks in the portfolio and never have been, despite at times seemingly attractive valuations. This attitude also leads us to avoid 'concept' stocks (i.e. unproven companies whose values are dependent on breakthrough developments which, by their nature, are very uncertain). Earlier in 2008 some stocks did well as commodities boomed; however, we reduced the Fund's already modest exposure (only stake is 2.4% in US oil & gas firm **Pioneer**). We felt increasingly uncomfortable determining values for these companies given their dependance on volatile commodity prices. In the case of oil, we prefer concentrating on exploration and production costs, in which a competitive advantage is a more solid backstop to an investment than a prediction on oil prices.

This due diligence is one way in which we try to avoid the sort of permanent losses inflicting banks for instance. Another is to demand healthy balance sheets. Currently only 7 out of 31 holdings have any measurable degree of debt, and 21 have net cash. Finally, our predilection for strong, predictable businesses with healthy cash flows leads the portfolio to be fairly heavily weighted in what are traditionally defensive sectors; food & drink, telecoms, utilities, food retail, pharma, etc.

A final, and very important, way in which we look to avoid permanent capital loss is by paying very little. Only when a stock is priced far below a thorough and conservative estimate of its intrinsic value do we consider investing. Even at a time of admittedly low prices we think Citadel's portfolio stands out. Based on 2007 figures (and 2008 is not likely to differ enormously), the Fund is selling at a measly 3.4X EBITDA and 4.6X EBITA with a dividend yield of 4.6%. A cheap valuation provides no guarantee that prices won't fall further (the past year is sadly proof of that) but it does, and has, cushioned the blow.

We know and understand the companies the Fund has invested in. As a result we have a good idea of what they are worth (even with a recession). When **Copel's** stock price falls sharply, for example, we don't take our cue from the markets and think therefore that it is worth less than a month earlier. Its hydro-electric dams are working, electricity is being provided to millions of captive clients, and the company is raking in cash. That its stock is down has everything to do with investor fear and uncertainty, and almost nothing to do with its business or the value of that business.

Stocks (including Citadel's) are getting tarred with the same brush as other assets for exactly the reasons we described earlier. It is frustrating to see stock prices decline at solid, cash-rich companies which were *already* selling at fire-sale prices. Unfortunately when markets plunge as they have done recently this is all too common. There is little doubt (and even less after developments in past weeks) that much of the world is in for tough economic times. Markets, as they always do, have anticipated this and been feverishly marking down prices for well more than a year now. As a result stocks in general look rather cheap. And this is especially true of Citadel's portfolio. Profits at some companies will surely suffer but, even so, their shares still look absurdly undervalued. And yet others, such as drinks producers **Zwack, Contal** and **Heineken**, food retailers **Village Super Market**, & **Ozeki,** traffic sign maker **Signaux Girod**, to name only a few, are not only cheap, but well positioned to ride through a weak economy without meaningful damage.

Stocks are currently being driven by panic. It is all too easy to lose sight of the fact that stock prices are ultimately based on economic factors like asset values and cash flows. Most of Citadel's companies are decidedly unsexy but they are financially healthy, generate impressive cash flows, and are market leaders in rather defensive industries. And they are very cheap. These are attributes which will be popular when the panic subsides.