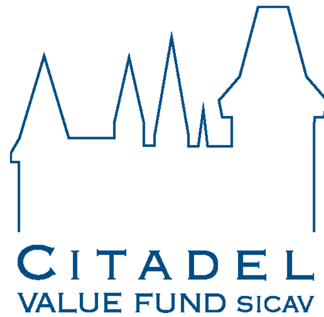
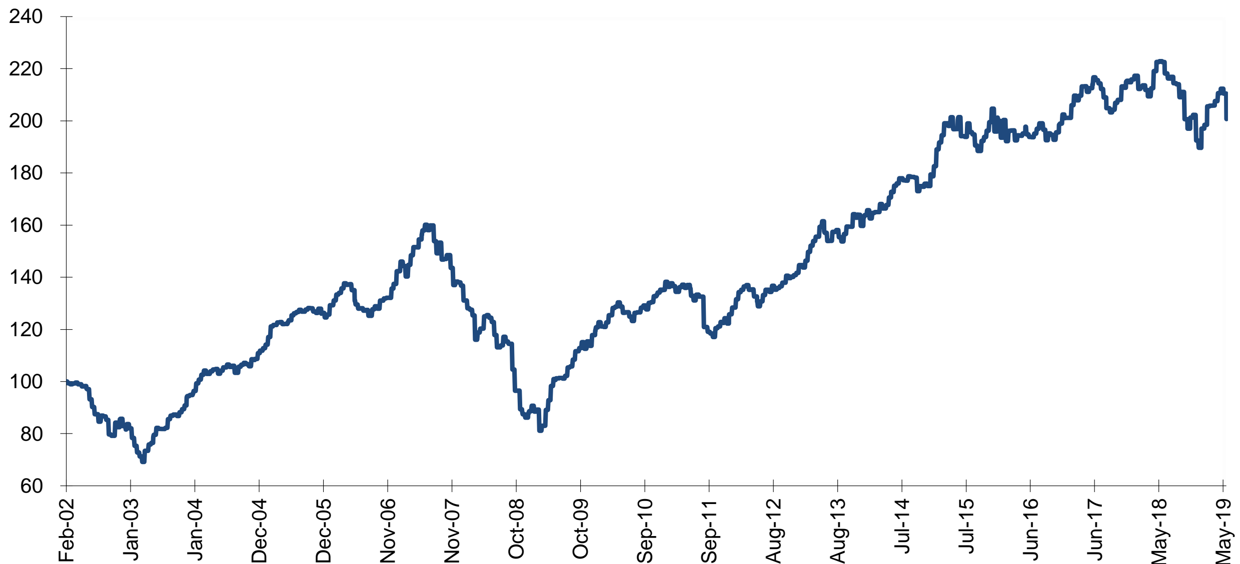


Dear Shareholder,

March 2019 marked the 10-year anniversary of one of the longest bull market runs in the history of modern equity investing. As per May 31st, 2019 (the Fund's fiscal year end) Citadel Value Fund has more than doubled since inception. Its year-to-date return stands at 5.8% after all costs. Normally this would be a solid return realised in just 5 months. However, performance has been very volatile in the short run, just like the underlying equity markets. This can be illustrated by some monthly performance numbers of the MSCI World index: within the month of December 2018, the difference between the high and low of the index was almost 14%. During the month of May 2019 the index was again down 5.5%.

We strongly believe that these changes in stock prices were not driven by comparable changes in the underlying values of the business. Rather, fluctuations in what people expect about global trade policy or monetary policy appear to be main the drivers of market sentiment changes. As we are not in the profession of predicting stock market behaviour, we concentrate our analysis on estimating the business value of companies. Increased market volatility has enabled us though to enlarge our shortlist of value opportunities. After a 10-year bull market that has led to high valuations, this is actually a pleasant change.



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.

The MSCI World Index is a widely used index consisting of a broad set of developed world stocks. As we explained on several occasions before, the MSCI World index is for a large part driven by US equity market performance. On its turn, the US market has been propelled by mega-cap technology stocks. These businesses commonly lack the margin of safety Citadel typically requires. The MSCI World index is up 12.6% year-to-date. This has resulted in even more staggering valuations, which reminds us of 1999 and 2000: Is this an accident waiting to happen or will the artificially low interest rates keep stimulating investments in high multiple growth stocks for years to come?

Fund Performance - Class P - as of May 31, 2019	Since inception	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
Citadel Value Fund	100,7%	-18,4%	17,0%	17,2%	12,0%	9,7%	-0,5%	-35,8%	36,2%	12,9%	-6,9%	12,7%	15,1%	10,1%	12,2%	-0,1%	7,4%	-12,1%	5,8%

Source: EFA. Fund inception date February 11th, 2002.

Considering Citadel's investment style, an appropriate comparison can be found in the MSCI World Value Index. This Value Index (a subset of the MSCI World index selecting low valuation multiple stocks) outperformed the overall MSCI World index in the period of 2002-2008 and performed in line in the 2009-2014 period. In the more recent period (2015 until today), we witness a clear underperformance of the Value Index versus the overall market. While we have always emphasised the total return focus of Citadel rather than trying to beat any index, it is interesting to note that the consistently applied deep value strategy of Citadel outperformed the MSCI World Value Index during the last few years.

On a daily basis, Citadel focuses on managing a portfolio of undervalued shares in companies with low business risks. As is typical for a true value investor, we seek a significant margin of safety – the difference between the price we pay and the value we estimate the business to be worth. In the tradition of this annual shareholder letter, we are happy to provide you with more insight into Citadel's portfolio.

Strong performance particularly at industrial companies versus a weaker consumer sector

Putting the Fund's sizeable cash balance aside for a moment, the underlying portfolio return has been 8.0% year-to-date. The majority of the Fund's holdings performed nicely. We found that several industrial companies were among the strongest performers, while some of the consumer oriented businesses showed share price weakness. This despite the defensive business characteristics usually attached to consumer franchises.

Dewhurst Plc was the largest contributor to the Fund's performance with its share price up 44%. A family-run producer of a broad spectrum of components for the lift industry, Dewhurst has been a great business to own[1]. Because the majority of Dewhurst's business is outside its home turf, Brexit uncertainty is only of limited influence. Moreover, it's a fact that the UK lift business has continued performing steadily. Last year Dewhurst acquired A&A, another lift component business in the UK, for a very attractive price. So far, A&A lived up to expectations, supporting first half 2019 results.

Most significant performance contributors & detractors
January 1st 2019 to May 31st 2019

Holding	Contribution	Absolute return	Holding	Contribution	Absolute return
Dewhurst PLC -A-	2.7%	43.7%	National Oilwell Varco	-1.0%	-17.3%
Pronexus Inc.	2.2%	22.0%	CNIM	-0.7%	-11.2%
MPAC Group	1.3%	47.9%	GS Home Shopping	-0.7%	-8.3%
Signify	1.1%	22.7%	Nongshim Co.	-0.3%	-7.7%
Toyota Industries Corp.	1.1%	15.2%	Daekyo -preferred-	-0.1%	-2.9%
Proto Corp.	1.0%	35.1%	Ahold Delhaize	-0.1%	-2.0%

Note: Returns include net dividends

The Fund's second UK based holding, **Mpac Group**, is also noteworthy given its 48% share price appreciation year-to-date. Mpac went through a painful 2018 when two of its packaging machinery projects did not meet customer's

[1] We refer to the shareholder letter of November 30th, 2018 for an extensive review of Dewhurst.

expectations and caused additional completion costs. 2019 started with a healthy order book, though, and measures have been implemented to improve operational and financial performance. Also Mpac acquired an adjacent business, Lambert Engineering. The combined business will be a much better positioned competitor in its main customer segments. With net cash at 80% of market capitalisation prior to acquiring Lambert, allocating some of this excess cash to improve the strategic position seemed a logical path to go. Mpac announced further positive news: its pension deficit has roughly halved based on the most recent triennial revaluation. This could save cash payments with a net present value of 30 pence a share - a substantial amount compared to the 166 pence share price.

This strong performance was counterbalanced by weakness in oil & gas related holdings and, as said, some consumer oriented businesses. **National Oilwell Varco** was the largest performance detractor so far this year. We will share a few more thoughts about NOV further on in this letter. Consumer franchises **GS Home Shopping**, **Nongshim**, **Daekyo** and **Ahold Delhaize** have been down by a single digit percentage in EUR. The first three holdings are Korean based companies. As the KOSPI index remained flat year-to-date and the Korean currency was down 4.2%, the Korean stock market has not been a rewarding market to be exposed to. Zooming in on the individual holdings, we see that all of them have their occasional business hiccups; however the Korean holdings remain incredibly cheap. Both GS Home Shopping and Daekyo trade around the value of their cash balance – which means that the equity holder gets a profitable dividend-paying business for free.

Portfolio movements during 2019

As one might expect, the portfolio has been fairly steady over the course of 2019. Citadel's holdings are typically acquired bearing in mind a longer investment horizon. Having said that, market volatility provided opportunities on the buy side as well as the sell side. There is also a new addition to report and we exited an existing holding.

The recently acquired position in **Nichirin Co**. is a Japanese manufacturer with a corporate history of over 100 years, specialised in selling rubber and steel hoses for the automotive and motorcycle industry. Brake system hoses, fuel hoses, power steering hoses and aircon system hoses are its main products. Nichirin sells its products predominantly in Japan, China and the Asian emerging markets where it has established local production capacity and joint ventures. Many segments of the car parts market may seem economically uninteresting due to commoditisation and due to the large investments necessary to manage the technology change to electrical vehicles. Why Nichirin, then? Well, the diamond within the Nichirin business certainly is its near-monopoly position in brake hoses for the two-wheel market in Asia. This is a very profitable and growing market niche. Even though Nichirin is active in the mainstream automotive markets as well, the company's EBIT margin of 14% and return on capital of 25% is roughly twice that of the sector average. Management has focused on profitable growth in recent years and has become increasingly shareholder value minded. Its balance sheet is robust, with JPY 17bn in cash & financial assets relative to a JPY 25bn market capitalisation. We purchased at around 2x EV/EBIT and less than 2/3 of Capital Employed. We believe the stock to be worth more than triple the current price.

Changes in the Portfolio
January 1st 2019 to May 31st 2019

Holdings bought or added to	Holdings reduced, sold or acquired in a buy-out
CNIM	Ahold Delhaize
National Oilwell Varco	Bijou Brigitte
Nichirin	Pronexus
	Signify
	Village Super Market

The Fund increased its weightings in **CNIM** and **National Oilwell Varco**. CNIM, a French engineering company active in waste-to-energy plant construction & operations and high-tech engineering and instrumentation, is a Fund position since two years. The position was increased after significant share price weakness – and after a thorough update of our analysis. CNIM will profit from a record-high order book that will drive revenue, earnings and cash flow in the next few years. However, the company announced cost overruns on two existing projects, which will be weighing heavily on 2019 earnings. While we were unhappy with the reduced valuation of our existing holding, we took the opportunity of a lower share price to increase the position.

We sold the Fund's position in **Bijou Brigitte**, a German fashion jewellery retailer. Bijou Brigitte was an investment initiated in 2009, amidst the financial crisis. Despite the economic crisis, it was a highly profitable business and was expected to benefit from a rebound in consumer confidence in the years following the downturn. Although initially this happened, management eventually appeared unable to sufficiently adjust the business to cope with disruptive trends such as e-commerce and shop-in-shop competitors. After a decent share price performance early-2019, we threw in the towel, realising a limited loss thanks to a high dividend income over the past years.

Further, we reduced the weighting of a number of positions at quite attractive share price levels. These include **Ahold Delhaize** and **Pronexus**. With the weighting reduction in both stocks, the Fund realised a positive return on previous weighting increases that were enabled by earlier market volatility. This is particularly true for Pronexus, the weighting of which we increased significantly in December 2018 at 2.5x EBITDA for a highly cash generative business. With the help of an erratic Mr. Market, we sold a portion at 5x EBITDA just four months later. Furthermore, we reduced **Signify** and **Village Super Market** for risk management reasons.

Portfolio Holdings
as of May 31st, 2019

Company	Activity	% of NAV
Pronexus	business services (printed & electronic financial documentation)	9.3%
Dewhurst -A-	industrial goods (elevator fixtures & controls)	7.3%
Toyota Industries Corp	industrial goods (Toyota, forklifts, engines, cars & parts)	6.9%
GS Home Shopping	speciality retail (TV home shopping & e-commerce)	6.2%
CNIM	high-tech engineering & equipment (waste-to-energy plants)	4.8%
Signify	industrial goods (lighting, lighting electronics, lighting systems)	4.6%
Village Super Market -A-	retail (supermarkets)	4.5%
National Oilwell Varco	industrial goods (oil field equipment & services)	4.1%
Berentzen Gruppe	consumer goods (spirits & beverages)	4.0%
Daekyo -preferred-	consumer services (education)	3.8%
Nongshim Holdings	holding co. (Nongshim, packaging, ingredients)	3.7%
Ahold Delhaize	retail (supermarkets)	3.5%
MPAC Group	industrial goods (packaging machinery)	3.4%
TGS Nopec	industrial services (seismic data)	3.4%
Proto Corp.	media (internet, magazines & data products)	3.3%
Zwack Unicum	consumer goods (spirits)	3.0%
Hanil Holdings	holding co. (Hanil Cement, Hyundai Cement)	2.6%
Nongshim Co.	consumer goods (food & beverages)	2.5%
Nichirin	industrial goods (automotive components)	1.9%
Signaux Girod	industrial goods (traffic signs)	0.6%
Cash and other assets & liabilities		16.7%
		100.0%

On May 31st, 2019 the portfolio consisted of holdings in 20 companies. The portfolio top-5 of now consists of two Japanese companies, two European businesses and one Korean company. Companies listed in Europe represent roughly one third of the Fund's NAV. The Fund's exposure to Asia is significant (around 40%), with Japan as most important market. The exposure of Citadel to the US equity market has remained small at 9%. The Fund's geographical mix is purely a result of the bottom-up search for attractive valuations. Ranked by industry exposure, the largest concentrations are in industrial goods, consumer staples and industrial services. These sectors offer us healthy, predictable businesses with defendable market positions and solid financials. The Fund's cash balance (net of other assets & liabilities) per May 31st, 2019 was 16.7% of NAV. This number has increased modestly from 12.8% at May 31st, 2018 mainly as a result of various divestments.

Buy undervalued and sell overvalued stocks – simple but not easy

We would like to spend a few more words on value investing - prompted by a prolonged period during which the value investment style has lagged the performance of investing in expensive growth stocks. In any other business, it would look foolish to buy expensive products relative to what the product brings to the table, and to expect this product to become even more expensive. Often dubbed as 'the greater fool theory', you need to expect that someone else, driven

by greed and fear, will be tempted to pay up even more in order for you to make a return. Yet this speculation is what appears to have been one of the drivers of the stock market over the past years.

In contrast we believe in the principle that buying companies for much less than their intrinsic value is the most important determinant of future returns. This principle is both logical and statistically proven over longer periods of time. Classical *value* investing means that you'd lock in a return by buying on the cheap. Classical *growth* investing means your investment requires future value growth in order to achieve a return. The anomaly currently taking place on the stock market is that the price paid for future growth is getting higher and higher (we call this 'multiple expansion'). This has been intensified by expansionary monetary policy. In our view, the risks associated with chasing ever higher valuations have increased considerably given the reduced macro-economic growth prospects.

Citadel is a classic value Fund. Despite the underperformance of the value vs the growth style, we are not at all tempted to shift the investment style towards 'growth investing' – simply because it does not make sense to start speculating with our own and partners' money. Having gone through the difficult 2002/03 period, where excessive growth valuations were annihilated, you can rest assured that the Fund continues to stick to the time tested principles of value investing that have served it so well: the requirement of a big margin of safety and a strong balance sheet together with understandable and predictable business models. This does not mean though that we neglect earnings growth potential when determining the business value of a company. From time to time, Citadel does invest in stocks temporarily trading at a high multiple as long as our analysis shows a much higher intrinsic value estimate. National Oilwell Varco, highlighted in the next section is currently a case in point.

National Oilwell Varco – indispensable value in the oil & gas sector

National Oilwell Varco (NOV), part of Citadel's portfolio since early 2016, is the only S&P 500 constituent among the Fund's holdings. In summary, NOV can be described as the leading equipment and parts manufacturer for the global oil & gas industry. NOV sells an unrivalled breadth of tools, machinery and constructions necessary for the day-to-day exploitation of oil wells, both on- and offshore. Some 90% of drilling rigs have at least some NOV equipment on board and NOV has leading market positions in almost all of their served segments. NOV has made significant investments in order to become a leading supplier to the unconventional oil market as well.

Back in 2016, NOV was heavily loss making after sales had plummeted by 50% due to massive purchase deferrals in the oil & gas industry. Its gross margin turned negative and operating income was further pressured by restructuring costs. All this might not sound like a classic value play of a steady business where a low profit multiple is the leading investment selection criterion. Yet, companies trading at atypical multiples, for example due to a cyclical downturn or amid cost reduction efforts with associated one-off expenses, can still offer all elements required for a true value investment. At the time, NOV stock could be bought for less than 2/3 of Capital Employed, a bargain in light of the through-the-cycle return on capital of 12-20%. Also, despite reporting a substantial net loss, the firm's cash flow was actually significantly positive. The stock was trading at an attractive Free Cash Flow Yield despite the rock-bottom operational results. And NOV's balance sheet was robust even though major share buy backs had been made.

Like any other oil & gas related stock, NOV's share price is correlated with movements in oil prices. Oil market sentiment flipped to quite negative territory 6-12 months ago. But the demand for NOV's drill pipes, bits and other parts is bound to recover in a world that still consumes and produces close to 100 million barrels of oil each day. A lot has been said about 'peak oil' and ways to replace oil & gas by other energy sources. A worldwide oil reserve replacement ratio of 30%, however, will in the end prove too low to service the world's insatiable demand for energy. Over time, when the reserve replacement ratio will inevitably be pushed up again, NOV is ideally positioned to sell new rigs, and upgrade existing ones. This will become a large earnings growth driver on top of the daily bread-and-butter business of selling spare parts and consumables. We are not in the business of predicting oil prices but we feel comfortable owning a share in the world's leading oil & gas production enabler. We recently increased the position when the share was trading at a 10-year low and we expect to reap significant benefits in the future.

In conclusion

While we are certainly on our guard given overall stock market valuations, fuelled by monetary policy being in uncharted territory, Citadel's portfolio gives us peace of mind. At 4x EV/EBITDA the underlying businesses are significantly undervalued while paying solid dividends, backed by strong balance sheets. If anything, we see substantial upward potential in Citadel and we are ready to add a few more names currently on our watch list if and when Mr. Market provides us with the right prices.

We wish you a great summer. Thank you for your continued commitment and trust in the Fund.

Kind regards,

The Board of Directors June 26th, 2019
Citadel Value Fund SICAV