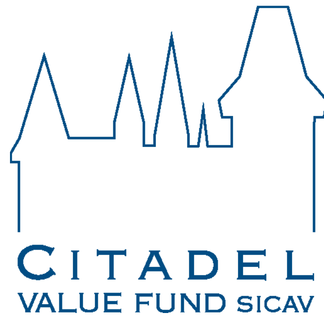


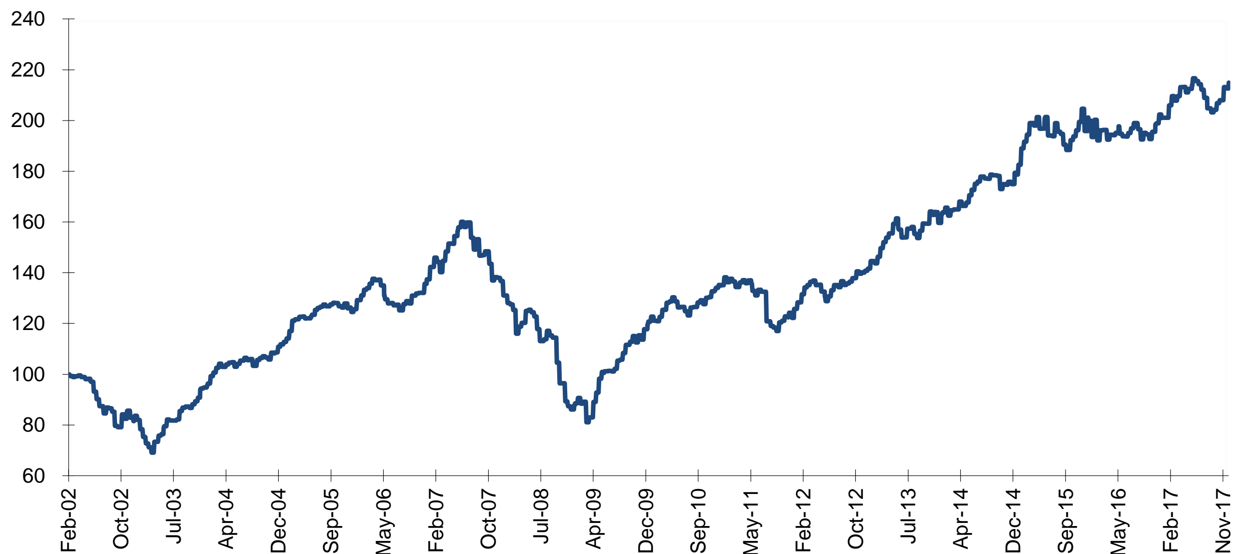
Dear Shareholder,

With the year-end nearing, it is the time of the year to review the progress of your Fund. In our June 2017 letter, we discussed the solid progress of the Fund during the first five months of the year. Although the summer months showed significant market volatility, the last months were strong and the Fund ended very close to its all-time high. The world index performed well, propelled by a strong impetus from a few large and expensive momentum stocks. We took advantage of the generally expensive equity markets to reduce some of the Fund's holdings. In addition, we succeeded in finding and adding a number of new interesting companies at attractive prices.

Per November 30th, 2017 – the closing of the Fund's fiscal first half year – the NAV per share (class P) was EUR 214.98, up 6.9% relative to December 31st, 2016. Since inception the Fund's class P return after all expenses stands at +114.9%. In 2017 Citadel celebrated its 15-year anniversary in a very healthy condition and still true to its founding principles: to protect your capital and render solid returns with a risk-adverse portfolio of undervalued companies.

Citadel Value Fund

Class P performance since inception to November 30, 2017



Fund Performance - Class P - as of Nov 30, 2017	Since inception	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD
Citadel Value Fund	114,9%	-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%	6,9%

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

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 (including net dividends, in EUR) was up 6.8% year-to-date, just 0.1% shy of Citadel's year-to-November 30th performance. Citadel's portfolio is by no means designed to track the index, since the Fund's investment strategy is to run a relatively concentrated portfolio and to select companies by a pure bottom-up stock picking process, completely unrelated to index considerations. The sole purpose of using a benchmark index is to show the average performance of a quite broad set of global investment opportunities –1,652 companies to be precise – a subset from which Citadel could potentially choose to invest. However, is the index performance a reasonable proxy for how worldwide markets behaved? We think that is questionable. Of the seemingly large number of companies included in the index, the top-5 alone represents no less than 7.1% of the index weighting. The top-5 is a group of highly valued momentum stocks: Alphabet (Google), Amazon, Apple, Facebook and Microsoft. The year-to-date performance of this group of five was an astonishing 45% in local currency (28% in EUR), which leaves the other 1,647 stocks producing a return of just 5%. This quick example shows that the index is an imperfect benchmark at best for a deep value fund like Citadel Value Fund, focussed on low risk investments.

Positive performance in the portfolio led by some Asian holdings

So far this year Citadel had a decent performance, with some 80% of the holdings realising a positive return. Interestingly, some Korean and Japanese holdings have performed particularly well. Number one performer of 2017 is **Hanil Cement.** Hanil is a Korean cement producer that re-emerged in 2017, leaving behind a difficult 2016 when it suffered from heavy price competition in parts of its business. This year, recovering product prices resulted in margin tailwind. In addition, Hanil acquired a controlling interest in Hyundai Cement, creating the largest cement group in Korea. The ongoing consolidation trend is helping to structurally improve the returns in the Korean cement industry. Hanil's stock price more than doubled this year, a start to correcting the many years of bargain valuation.

GS Home Shopping, a market leading TV home shopping and mobile commerce business in Korea, also contributed favourably to the Fund's performance in 2017. GS operates a very high return on capital business and has a rock-solid balance sheet. In January, we increased the stock's weighting in the portfolio at a valuation of only 1x EV/EBITDA, making it a top-5 holding. We did this after a thorough re-evaluation of the attractiveness of this company and its markets. As the company reported solid progress in its results throughout this year, the share price appreciated meaningfully. Driven by its performance, it has become the largest holding of the Fund.

Most significant performance contributors & detractors
January 1st 2017 to November 30th 2017

Holding	Contribution	Absolute return	Holding	Contribution	Absolute return
Hanil Cement	2.7%	101.4%	Independent News & Media	-0.9%	-28.5%
GS Home Shopping	1.6%	25.3%	National Oilwell Varco	-0.7%	-20.6%
Molins	1.4%	99.2%	Tessi	-0.7%	-11.9%
Toyota Industries Corp.	1.2%	18.3%	Village Super Market -A-	-0.6%	-9.9%
Pronexus Inc.	1.1%	15.9%	CNIM	-0.3%	-7.5%
Dewhurst -A-	1.0%	23.6%	Ahold Delhaize	-0.3%	-4.8%

Note: Returns include dividends

Also worthwhile mentioning is the resurrection of **Molins**. UK-based Molins is a small but globally active producer of packaging machinery mainly for the food processing and pharma industries. This microcap has been a small position in the portfolio for many years. In 2016 a new CEO took office. He started to optimise a number of operational processes, resulting in much better order intake followed by revenue and profit growth. Then in June 2017, the company announced its strategic decision to divest its tobacco machinery division for net proceeds that exceeded the market capitalisation at that time. This happened after the share price already had enjoyed an 80% rally due to better operational performance. On this significant news, Citadel increased its position in the stock. Since then, another 48% share price appreciation followed until November 2017. On top of the tobacco machinery divestment, the company also announced the sale of an old factory in Canada for a considerable amount in cash, unveiling additional value. The Fund's position enjoyed almost a 100% weighted average return in eleven months.

Some of the Fund's holdings underperformed, albeit with relatively modest impact. **Independent News & Media (INM)**, a recent addition to the Fund, contributed a negative -0.9%. INM is the no. 1 newspaper and media group across the island of Ireland. It is a business in decline, yet with strong profitability and solid free cash flow generation

for some years to come. While operating performance was lower than expected, in particular some issues unrelated to normal business risks have caused the shares to underperform. The CEO, which we thought did a good job in running the business in a cost conscious manner, had to resign over a quarrel with the Board's chairman. As a consequence of external corporate governance experts investigating the struggle at the top, a load of legal expenses has burdened the operating profit. We also believe that this has distracted management from running their operations. Recently a company veteran was appointed as the new CEO. We expect him to initiate major actions to overhaul the business and cut costs further. While we bought the stock at 2x EV/EBITDA, it is now trading at 1x EV/EBITDA and a 55% free cash flow yield. Net cash represents 80% of the market capitalisation - which seems a considerable margin-of-safety for a profitable albeit challenged business.

The Fund's exposure to the food retail sector did not help performance this year. Both **Ahold Delhaize** and **Village Super Market** realised negative returns. The challenging food retail environment in the United States and in particular Amazon announcing the take-over of Whole Foods caused the shares of both companies to plummet by a breath-taking 25%. However, we are convinced that their *value* did not decline by 25%! After re-doing our analysis, including extensive discussions with management, we decided to take advantage of what to us seemed a stock market overreaction. The Fund increased its weighting in both food retailers at very attractive prices. The share price of particularly Ahold Delhaize has recovered quite a bit since our purchase. The negative performance thus proved to be a largely temporary rather than a permanent loss. Keeping in mind the late investor Benjamin Graham's epic metaphor of a manic depressive Mr. Market, it did in fact create a profitable investment opportunity for the Fund.

Significant dynamics in the portfolio during 2017

In 2017, the Fund sold four of its positions, taking advantage of high valuations in some markets. During the first few months of the year, the Fund exited **Tessi** and **BAE Systems**, two top-5 positions. Tessi, a French small cap company mainly active in document processing, had enjoyed a strong performance over the last few years. The exit valuation was above 8x EV/EBITDA and the Fund pocketed a 141% absolute return. Also, we sold our stake in BAE Systems. Recovering from a few challenging years, BAE Systems had already started to perform nicely with the election of Donald Trump as U.S. President causing significant tailwind for investor sentiment in the defence sector. This momentum propelled the valuation towards 12x EV/EBITDA, which was above our intrinsic value estimate. It thus triggered a decision to sell realising a 117% total return. It is illustrative of how Citadel acts on a strict deep value discipline and tries to avoid the risks that come with growth valuations.

Changes in the Portfolio
January 1st 2017 to November 30th 2017

Holdings bought or added to	Holdings reduced, sold or acquired in a buy-out
Ahold Delhaize	BAE Systems
Berentzen Gruppe	SK Telecom
CNIM	Spotless Group
GS Home Shopping	Tessi
Independent News & Media	
Molins	
Philips Lighting	
Spotless Group	
TGS Nopec	
Village Super Market	

In the first quarter, the Fund invested in **Spotless**, the leading facilities services provider in Australia and New-Zealand. The Fund benefited from this investment for an untypically short period of 3 months. Shortly after we purchased the stock, another Australian company saw the same value-opportunity and launched a hostile takeover bid, which eventually succeeded. Although we believe that in the mid-term, Spotless's intrinsic value would have exceeded the level of the takeover bid by a wide margin, it has been a positive performance contributor.

In August, we reduced the weighting in **SK Telecom**, the leading mobile operator in Korea. SK Telecom's share price has performed nicely, partly driven by its core operations, but even more on the back of its 20% stake in SK Hynix acquired a few years back. SK Hynix is a global leading memory chip producer. Its business is highly cyclical, currently

running at peak cycle profits. While it has added to SK Telecom's intrinsic value, it also transformed it into a higher risk investment than the Fund's usual risk profile would befit. Early December, just after close of Citadel's fiscal first half, we sold the remainder of the holding at an all-time high. The realised total return was 89%.

Notwithstanding the generally expensive equity markets, our continuous scanning and analysis process has led to a number of new investment cases that were added to the Fund's portfolio. In our June 2017 shareholder letter, we already wrote about the addition of **Philips Lighting** (lamps, lighting systems and lighting electronics), **Berentzen** (producer of spirits and non-alcoholic drinks), **Spotless** (facilities services provider, already divested) and **Independent News & Media** (newspapers and media).

Portfolio Holdings
as of November 30th, 2017

Company	Activity	% of NAV
GS Home Shopping	speciality retail (TV home shopping network)	7.1%
Pronexus	business services (printed & electronic financial documentation)	6.9%
Toyota Industries Corp	industrial goods (Toyota, forklifts, engines, cars & parts)	6.8%
Nongshim Holdings	holding co. (Nongshim, packaging, ingredients)	6.1%
Hanil Cement	materials (cement production)	5.0%
Ahold Delhaize	retail (supermarkets)	4.9%
Dewhurst -A-	industrial goods (elevator fixtures & controls)	4.9%
Nakano Refrigerators	industrial goods (commercial refrigerators, coolers & displays)	4.1%
Village Super Market -A-	retail (supermarkets)	4.1%
Berentzen Gruppe	consumer goods (spirits & beverages)	4.0%
TGS Nopec	industrial services (seismic data)	3.9%
CNIM	industrial engineering & equipment (waste-to-energy plants)	3.8%
Daekyo -preferred-	consumer services (education)	3.8%
Nongshim Co.	consumer goods (food & beverages)	3.4%
SK Telecom -ADR-	telecommunication services (mobile, broadband, e-commerce)	3.2%
Molins	industrial goods (packaging machinery)	2.6%
Zwack Unicum	consumer goods (spirits)	2.6%
Philips Lighting	industrial goods (lighting, lighting electronics, lighting systems)	2.5%
National Oilwell Varco	industrial goods (oil field equipment & services)	2.5%
Proto Corp.	media (internet, magazines & data products)	2.4%
Independent News & Media	media (newspaper & online publishing)	2.1%
Bijou Brigitte	speciality retail (costume jewellery stores)	1.4%
Signaux Girod	industrial goods (traffic signs)	1.2%
Cash and other assets & liabilities		10.6%
		100.0%

The fifth addition to the portfolio is **CNIM**, an industrial engineering and equipment provider, on which we will further elaborate in this letter. In addition to selecting new opportunities, the Fund also added to a number of existing positions. We already touched upon most of them, except for **TGS Nopec**. TGS is a seismic data provider to the oil & gas industry. We originally purchased this company in 2014. Since then, a lot has happened in the oil markets. This summer, we re-evaluated the investment case for this asset light and very well run company that continues to generate cash despite the hefty downturn of the oil services sector. When the share price dipped after the second quarter results, we took advantage of the attractive price point and doubled the Fund's position.

On November 30th, 2017 the portfolio consisted of holdings in 23 companies. With virtually all new additions being European companies, the stronghold of the Fund is based on stakes in Europe and Asia. In the US equity market, the Fund currently has only two holdings (Village Super Market and National Oilwell Varco), making up 7% of the Fund's NAV. Ranked by industry exposure, the largest concentrations are in industrial goods, consumer staples and industrial services. Cash (net of other assets & liabilities) per November 30th, 2017 was 10.6% of the Fund's NAV. This number has come down from 22.8% (year-end 2016) as a result of the portfolio changes.

Refreshed portfolio attractive and safe on a 'see-through' valuation basis

As said before we devoted much time in 2017 to further optimise the portfolio. We harvested older –fairly valued – positions and sowed the seeds of new opportunities. This has led to an estimated higher upside potential at lower average risk, or to put it simply: a "safe & cheap" portfolio. Key in assessing whether the Fund is safe & cheap, is to estimate the intrinsic value of the individual holdings. The estimated intrinsic value of Citadel as a whole is currently over EUR 370 per share. Given today's NAV of EUR 215, the portfolio's discount to intrinsic value is evident. So, the upside potential is arguably there, but is the portfolio also safe? To us, this is at least as important a question.

To answer this question we launched an insightful analysis 10 years ago in the November 2007 shareholder letter: analysing the Fund on a 'see-through' basis, as if the Fund were a company[1]. This analysis takes the exact proportionate share Citadel owns of each portfolio company's earnings and balance sheet items. To this the Fund's own net cash position is added. This 'what-you-see-is-what-you-get' method provides a very telling picture of the financial health and valuation of the Fund. For example, it tells us that more than a third of Citadel's value is net cash accumulated on the combined balance sheets of the portfolio companies. This provides us with a considerable margin-of-safety against unforeseen economic circumstances. Although too much cash on a company's balance sheet can be a drag on shareholder returns, it also gives room for future returns through share buybacks, dividends or profitable investments. In contrast, the MSCI World index does not have that kind of safety cushion. A similar 'see-through' analysis actually reveals the opposite for the index: all MSCI constituents together have net debt (rather than cash) of 25% of the combined index market capitalisation. This degree of financial leverage acts like a turbo charger in good times, but can be bad for your night's rest if market circumstances get more challenging.

The see-through methodology is very useful for analysing the Fund's valuation. At today's NAV, the Fund is valued at only 4 times last year's operational profit (EBITDA). The current MSCI World index valuation is a lofty 11.4x. Even more worrisome, the valuation of the earlier mentioned top-5 of this index is a staggering 21x. Similarly, looking at what you pay for the free cash flow generated by the portfolio companies, the Fund appears attractive with a free cash flow yield of 12% against the index average of only 6%. Part of the explanation for these differences is 'active management'. While Citadel is seeking to exchange fairly valued holdings for new ones with more upside potential, the index has been partially driven by highly valued momentum stocks that got even more expensive. Citadel's portfolio companies are cheap but generally very profitable at the same time while generating abundant cash from operations. An example of such a company is **CNIM**, a holding that was added in recent months.

CNIM S.A.: From Waste to Value

With a corporate history that started off in 1856, **Constructions Industrielles de la Méditerranée S.A.** (**CNIM**) is a leading specialist in very specific industrial engineering & equipment projects. The major part of CNIM's business is to engineer, operate and maintain waste-to-energy plants. CNIM has built a track record of delivering over 160 turnkey waste-to-energy plants, most of them in France and the UK. Together, these plants handle household waste produced by over 100 million people. A number of them are operated by CNIM based on long-term service contracts. Next to energy plants that incinerate household waste, CNIM also has a lead position in biomass-to-energy facilities (around 300 installed under CNIM's lead). A third activity is upgrading existing plants by installing modern flue-gas treatment systems, based on CNIM's proprietary and patented technology. Business opportunities are clearly stimulated by long term environmental & clean energy trends. Important to note is that CNIM's longstanding track record of reliability – particularly with regard to energy output – is a sustainable competitive edge in this market.

CNIM's revenue share of a new energy plant project is currently around EUR 120m – and growing as the average size of new plants tends to increase. CNIM currently has a record order book of about 2x annual revenue. Not yet included in this order book number are plant orders signed by the customer (usually a local municipality or energy company), but where the local environmental permits are not yet finalised. Permit processes usually take up to one year. With a certain stock of signed orders in the 'shadow order book' awaiting a permit, it is fair to expect that the business will continue to develop positively in the coming years. An example is a large potential construction and operating contract announced in September 2017 for a waste-to-energy plant with a capacity of 1 million tonnes of waste per annum. We estimate a sales value of this contract of as much as EUR 400m, equalling the entire 2016 order intake, which was a

[1] For more in-depth information on valuation ratios and the topic of 'see-through' valuation please refer to our explanations in the letter to shareholders of November 2007, available on www.citadelfund.com.

record year already. We note that this only reflects CNIM's scope in the project, so excluding the civil construction and other works done by partners.

What does make CNIM's valuation so attractive? We calculated that the portfolio of plant operating contracts has a lifetime revenue value exceeding EUR 1bn. The estimated net present value of these high-margin operating contracts covers roughly half of CNIM's current Enterprise Value. As a consequence, we have paid a bargain multiple for the healthy turnkey plant business which is backed by a sizeable order book. The other profitable activities apart from the energy business CNIM owns thus come as a free bonus: roughly one third of revenue is generated by high-tech industrial equipment production, such as high-precision instruments and specialised equipment for research projects.

So, the current valuation is attractive but what about the risk profile of the company? For decades, the majority of the company has been owned by two families, who are represented in the board. Management has run the operations with a long-term vision, cherishing the company's track record, only taking calculated risks and maintaining a healthy balance sheet. With end of last year's net cash amounting to half of the market capitalisation, balance sheet management even seems a bit too prudent. Having said that, the company has been active in buying back shares and the high dividend pay-out has occasionally been augmented by a special dividend. In addition, with demonstrable pricing discipline management has been acquiring as well as divesting businesses from time to time in order to improve the portfolio of activities. All in all, we are quite enthusiastic about this new holding.

In conclusion

We hope that we have been able to once again illustrate Citadel's investment principles based on a rational, research-driven process, avoiding risky situations and searching for solid but undervalued businesses. We also would like to take the opportunity to express our gratitude for your investment in the Fund and your continuing trust. We will continue to do our utmost best to keep the Fund flourishing. We wish you and your family a wonderful holiday season and Merry Christmas!

Kind regards,

The Board of Directors December 19th, 2017
Citadel Value Fund SICAV