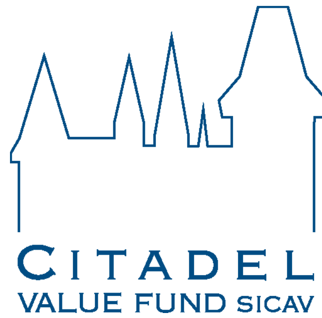


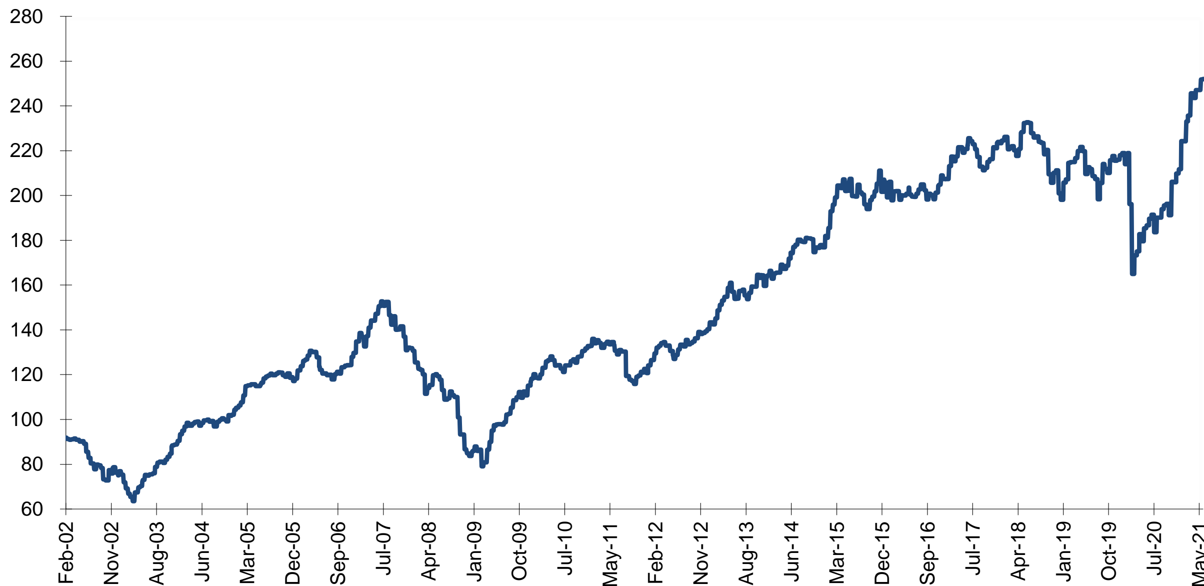
Dear shareholder,

First and foremost, we hope this letter finds you in good spirits. Although the Covid-19 pandemic is far from over in large parts of the world, we share the general feeling of relief now that the Western world is opening up again. Over two billion vaccine doses have meanwhile been administered worldwide. While health risks are slowly abating, other challenges have presented themselves. Supply chain disruptions, excessive monetary and fiscal stimulus and the resulting debt levels add yet another degree of complexity to businesses and financial decision making.

Nevertheless, value investing has proven to be a healthy recipe during these uncertain times. The Fund was able to take advantage of attractive buying opportunities and the portfolio has performed quite well. We are happy to share Citadel's strong year-to-date performance of +19.0% per May 31st and +36.0% since June 1st, 2020. In comparison, the MSCI World total return index (in EUR) showed a year-to-date return of +11.5%. Since inception, the net return of Citadel's Class X shares is +174%. Interestingly, even after this strong rally, Citadel's portfolio is considerably cheaper than the world index average. As is usual we will provide a review of the portfolio later in this letter.

Citadel Value Fund

Class X performance since inception to May 31, 2021



Fund Performance - Class X - as of May 31, 2021	Since inception	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 YTD
Citadel Value Fund	174,3%	-18,4%	19,3%	17,6%	11,9%	10,2%	0,8%	-34,7%	36,9%	13,6%	-6,4%	13,0%	16,5%	11,4%	13,9%	0,1%	8,3%	-11,8%	10,1%	-2,9%	19,0%

Source: EFA, D&F. X-Class inception on June 4, 2013. Fund performance prior to June 2013 estimated based on P-Class shares since 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 Green Deal

In this letter, we would like to briefly touch upon Citadel's view on *Environmental, Social and Governance* (ESG) aspects of investing. The awareness of citizens and companies about how we treat the world (both nature and its inhabitants) is undeniably increasing. And this is a good thing because we *should* care about these aspects. In recent years, particularly the environmental aspect of ESG has become a topic that has been embraced by politicians and regulators. For example, as of early 2021 Citadel and all other investment funds regulated in Europe are required to analyse the ESG characteristics of investment opportunities and to take sustainability into account as a risk factor. Citadel has implemented a corresponding sustainability policy.

What we do see in the market is that political pressure on certain themes can lead to misallocation of capital and inherent risks for the investor. The valuations of many well-known "green" investments are in bubble territory, which makes it unattractive to participate. Another element is the price inflation of 'sustainable' ingredients or commodities such as rare earth metals used in car batteries. At the same time, traditional commodities such as oil will become more expensive as well because ESG diverts investments to green projects, leading to underinvestment in traditional energy sources. This clearly shows up in the annual reports of oil companies, where the average reserve live is shrinking rapidly. We believe that these inflationary pressures, and the impact these costs have on businesses and consumers should also be considered when analysing investments and ESG factors.

Unfortunately, ESG analysis seems primarily a "ticking the box" exercise based on a risk framework put together by regulators. As a result, external rating agencies have published ESG company scorecards, which are often inconclusive or even contradictory. We believe this regulation driven approach is not an effective way to make better investment decisions, let alone to make the world a better place. In our view, it is more important to look for high quality management that genuinely cares about the long-term sustainability of its business and plans a realistic phase-out of fossil fuels. Already 20 years ago, well-managed companies talked about *People Planet Profit* as integral part of their strategy, so not much new here. Citadel's stock selection process is predominantly based on proprietary research and analysis, which includes the impact ESG factors can have on the investment case. Many other factors are important as well in taking the right investment decision, so in the end it is all about thorough fundamental analysis and getting to know all aspects of the analysed company. A dialogue with the company on all relevant topics is commonly part of the analysis. Important to stress is that Citadel does not have an activist approach and that includes ESG themes.

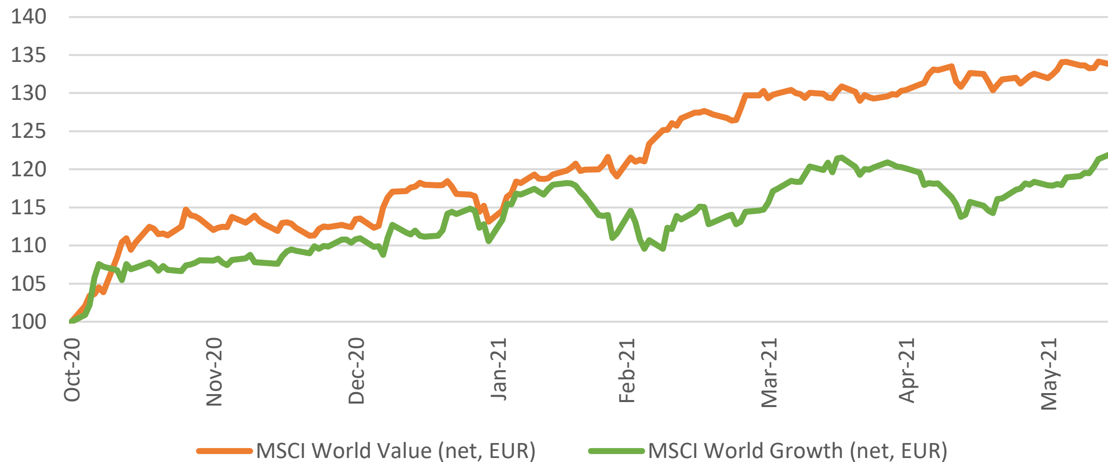
Sticking to the proven Value Strategy in an inflationary environment

Upward price pressure from sustainability efforts is just one aspect of a hot topic in finance: the risk of higher inflation and its potential impact on financial markets. In fact, there are many arguments against rising inflation expectations: low population growth, a high savings rate, spare labour market capacity together with other macro-economic factors have a dampening effect on inflation. However, several strong inflation drivers are also present.

Before the pandemic hit the world, monetary policies in the largest economies were already very accommodative. The pandemic triggered decisions to provide unprecedented financial support to financial markets, companies, and consumers. This support was partially implemented through fiscal stimulus (sending out checks and covering wage payments) which led to rapidly growing sovereign debt burdens. For another part, the support existed of direct monetary stimulus: central banks for example purchasing junk bonds from companies that otherwise would have collapsed (but are now left with unsustainable debt). These elevated debt levels in many economies have pressured central banks to keeping interest rates artificially low (in other words: not at a level that sufficiently reflects risks, including inflation). Rather than resulting in corporate investments or consumer spending, the excess liquidity has often found its way to savings or financial market instruments, creating asset inflation. Monetary policy around the world has clearly sailed into uncharted territory, but the ultimate economics textbook outcome would be precisely that: inflation. At the time of writing of this letter, recently published inflation rates are above expectations.

Now that the economy is re-opening and recovering from the pandemic shock, we see a picture of pent-up demand on the one side and supply chain disruptions (i.e., supply constraints) on the other. This is another, perhaps more temporary, cause of price inflation. For example, we have witnessed significant commodity price rises, partially due to underinvestment during the past 1,5 years coinciding with catch-up demand. Rising commodity prices equal higher input prices for producers and will inevitably filter through to higher prices for consumer goods.

Central banks have done "whatever it takes" to keep interest rates low, which has resulted in artificially overvalued bond markets. However, long-term bond yields have risen quite a bit over the last 6 months (even more in the US than in Europe). Most likely this reflects market expectations of increasing inflation, ultimately forcing central banks to react by limiting monetary stimulus and raising their interest policy rates.



Several financial asset classes that have performed strongly and reached high valuation levels, now run the risk of downward pressure. We believe this is particularly the case for sovereign debt and corporate (high yield) bonds but also for growth equity and some speculative asset categories. As the chart above shows, value stocks as a category (measured by the MSCI World Value index) have started to outperform growth stocks (MSCI World Growth index) since November last year. We think this is a logical consequence of the macro-economic and monetary situation and driven by unsustainable valuation differences. At the same time, we have observed increased volatility among growth stocks and nervousness about high valuations.

We do not have that famous crystal ball that perfectly predicts future market behaviour. As Benjamin Graham already observed more than 70 years ago Mr. Market is driven by bouts of euphoria, panic and apathy, human emotions completely detached from underlying company fundamentals. In the longer run he believed that stock markets would act more like a weighing scale, a situation where market prices would reflect fundamental factors. We believe that the recently increased preference for lower priced stocks of solid businesses with healthy balance sheets, *value stocks* in other words, fits neatly into this analysis. While growth stocks, particularly those associated with technology, still appear grossly overvalued, the renewed attention for value stocks matches Citadel's investment philosophy quite well. Although we put more emphasis than otherwise on investment opportunities that can cope with inflation (or even profit from inflation), the Fund's value strategy has been unchanged since its inception in 2002 and is particularly effective in today's market environment as we will show in the next section.

Broad-based performance

Citadel's holdings have driven an excellent Fund performance in the year-to-date period. Almost all portfolio positions have contributed positively. Remarkable is the contribution of the Fund's investments in the non-food retail sector, particularly those operating in North America. **American Eagle Outfitters** is the number one jeans brand among younger buyers in the US and is operating the highly successful Aerie women's intimates and leisure brand. Like many retailers, the company had to digest a challenging Covid situation in the second quarter of 2020, which was the point in time Citadel built a position in the battered stock. As the company emerged from the pandemic much quicker and stronger than anticipated, driven by extraordinarily strong online growth for Aerie, its share price has already more than quadrupled compared to what Citadel paid for it. During calendar year 2021 alone, the share rose 77% as the company's financial performance in 2021 is set to hit a record high, which is much faster than originally anticipated.

Most significant performance contributors & detractors **January 1st 2021 to May 31st 2021**					
Holding	**Contribution**	**Absolute return**	**Holding**	**Contribution**	**Absolute return**
Bed Bath & Beyond	5,2%	72,3%	Pronexus Inc.	-0,4%	-6,1%
Signify	4,0%	53,7%	TGS Nopec	-0,4%	-8,5%
American Eagle Outfitters	2,6%	77,2%	Samsung Electronics -Pref-	-0,1%	-2,8%
Tarkett	1,7%	62,9%			
Dewhurst PLC -A-	1,7%	26,1%			
Swatch Group	1,4%	33,6%			
Note: Returns are in EUR and include net dividends					

The largest year-to-date contributor was another US non-food retailer, **Bed Bath & Beyond** (BBBY). BBBY is selling furniture for bedrooms, bathrooms and kids rooms as well as general household merchandise. The company is emerging from an operational turnaround that was long overdue. Citadel owned BBBY stock in 2019 until early 2020. A position was re-purchased early January 2021 after it had become clear that the refreshed management team solidly executed the first phase of the turnaround plan while at the same time coping effectively with the pandemic. Only few weeks after Citadel had built a position, a short squeeze propelled the share price towards the company's estimated intrinsic value. The rational investment decision – based on fundamental valuation analysis – was to exit the stock again. Citadel realised a 131% return. During the months that followed, the stock slowly but surely retreated from its high until returning to a level that provided sufficient margin of safety for Citadel to again re-build a position. The blended performance (realised and unrealised combined) is the +72% shown in the table above. While per the May 31st fiscal year end the Fund continued to hold that position, at the time of writing the holding was sold once again after the share price had shot up yet another time due to a similar short squeeze. The important lesson is that taking rational buy and sell decisions based on an informed judgement about the value of a company is the right approach to investing. It can be quite rewarding in irrational markets, and it also shows that price volatility can be a rational investor's friend, because it increases the odds of mispricing.

Further performance contribution came from **Tarkett** (French flooring producer), also a recently purchased holding, on which we will elaborate further on. **Dewhurst** (UK based elevator fixtures and controls producer) added to the Fund's positive performance, as well as **Swatch Group** (Swiss luxury watchmaker). There were very few performance detractors year-to-date. **TGS** (a seismic data provider, previously named TGS Nopec) has struggled with the slow recovery of capital expenditures in the oil & gas sector, which resulted in sluggish share price performance. **Pronexus** (Japanese financial documentation and investor relations services provider) realised lower but still quite decent profitability in its most recent financial year. While its share price was roughly unchanged, a weak Japanese Yen resulted in a lower Euro return.

Further opportunities added to the portfolio in 2021

The list of Citadel's portfolio changes in 2021 is shorter compared to 2020, but the Fund was still able to purchase a few interesting value opportunities at attractive prices. As elaborated in the previous section, a position in Bed Bath & Beyond was rebuilt and sold during January and subsequently rebuilt in April. A second investment has been the position in preferred shares of **Samsung Electronics**. Korean based Samsung is mainly known for its consumer electronics but in fact it is a global market leader in several important technology markets. In the smartphone market, it shares the global market leadership position with Apple. It is leading in some other consumer electronics segments as well but also in high-end displays, both large ones (for televisions) and smaller ones (for smartphones). However, the most valuable market position of Samsung is its global market leadership in memory chips. This is a high added-value business thriving on a secular growth trend of insatiable demand for memory due to cloud computing, hosting, smartphones, internet of things, etc. Memory chip design and production is a high barrier-to-entry business due to high R&D intensity, huge capital requirements and extremely large economies-of-scale effects. This results in highly attractive profit margins and free cash flow characteristics for the market leader. Citadel paid a multiple of c. 4x operational earnings for what is a high margin business (though still cyclical) with an ultra-strong balance sheet and a policy to return 50% of the generated free cash flow to the shareholder. We believe the stock is clearly worth more than double the price Citadel has paid for.

Changes in the Portfolio January 1st 2020 to May 31st 2021	
Holdings bought or added to	**Holdings reduced or sold**
Bed Bath & Beyond	Bed Bath & Beyond
Tarkett	Daekyo -preferred-
TGS Nopec	GS Home Shopping
Samsung Electronics -preferred-	

The French company **Tarkett**, one of the global market leaders in flooring solutions, was the third new investment. Tarkett has leading market positions in commercial flooring (e.g., carpet, vinyl, linoleum, laminate, and other products) in Western Europe, Eastern Europe, and North America. In addition, it is the leading provider of artificial grass and other sports surfaces in North America and the no. 2 in this market in Europe. Tarkett had suffered from high production costs and an expensive acquisition under previous management and had started to address these issues under a new CEO as the pandemic hit its end markets. Only after Citadel was certain that the balance sheet was strong enough to cover a period of weaker results, a position in the stock was bought at below 4x normalised operating earnings. As new long-term shareholders, Citadel would have patiently waited for a market demand rebound and expected this to nicely synchronise with the results of the company's cost improvement program. However, already in the Fund's early days as a shareholder the founding family, owning 51% of the shares, surprised the market by announcing a take-over offer for the remaining shares.

Next to the new positions, we moderately increased the weighting of the Fund's existing position in **TGS** when the share price hit a low point. In terms of exits, the Fund sold its long-time positions in two Korean companies, namely **GS Home Shopping** and **Daekyo**. Daekyo is a market leading home tutoring service provider in Korea, a country where tutoring of children is very much embedded in the culture. Despite the share's still low valuation, Citadel exited its position due to diminished trust in the corporate governance situation and in management's capability to cope with increased competition and lower market growth. The Fund made a modest return driven by a high dividend yield.

Two take-over offers in the portfolio

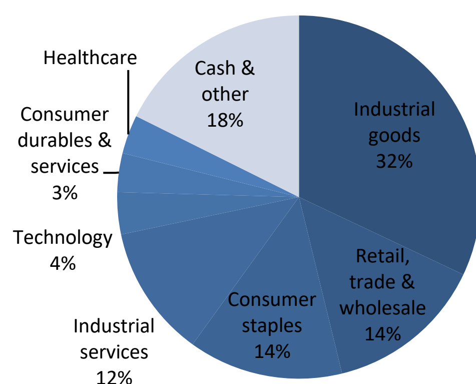
GS Home Shopping is the second Korean company the Fund exited during the period under review, and it happened to be the second holding that was the subject of a recent take-over offer. GS Home Shopping is a leading TV home shopping channel and e-commerce provider in Korea with consistently high operating margins and a strong free cash flow profile. The valuation has been extremely attractive as from time to time the cash & financial assets on the company balance sheet where higher than the entire market capitalisation. Therefore, we regret that the parent company and 36% shareholder GS Group is in the process of arranging a merger with GS Retail, a sister company 66% owned by GS Group that is active in brick & mortar retailing. This merger will result in GS Home Shopping shareholders being offered shares in GS Retail at a valuation we believe is unattractive. The offer is based on the current market prices that overvalue GS Retail whilst grossly undervaluing GS Home Shopping. This happens to be convenient to the controlling family since they own more of the former than the latter. As a result, the controlling family benefits from getting a majority position in a strong and healthy company on the cheap, while the opposite is happening to the minority shareholders of GS Home Shopping. Despite the obvious corporate governance objections to this deal, the logical step was to conclude that objecting the proposed merger would be much trouble for most likely nothing. Therefore, it was decided to sell the Fund's position in exchange for cash instead of accepting GS Retail shares. Citadel made a 70% return on the position it still held, which could have been more if GS Home Shopping holders would have been offered a fair price. Unfortunately, some corporate governance practices in South Korea are still inadequate in protecting rights of minority shareholders. This is in contrast to e.g. Japan, where corporate governance has improved visibly over the past decade.

As mentioned before, **Tarkett** is also the subject of a takeover offer by the controlling family shareholder, seeking to buy the remaining shares not yet held by the family. This offer is done together with a finance partner, who has obviously taken note of the upside potential in the stock's valuation. Although we must admit that the offer is 61% above the Fund's average purchase price, we share the stance of a few other institutional shareholders, among them some likeminded value investors, who have publicly stated that in their view the offer is opportunistically timed and significantly undervaluing the company's financial prospects. Hence, the outcome of this offer is yet to be seen.

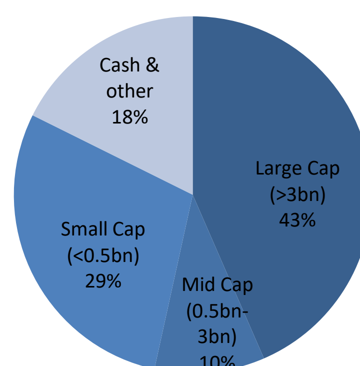
Portfolio Holdings as of 31 May 2021		
Company	**Activity**	**% of NAV**
Signify	industrial goods (lighting)	8,5%
Dewhurst -A-	industrial goods (elevator fixtures & controls)	6,4%
Pronexus	business services (financial documentation & IR services)	5,0%
American Eagle Outfitters	retail (apparel)	4,6%
Swatch Group	retail (luxury watches & jewelry)	4,3%
Toyota Industries	industrial goods (Toyota, forklifts, engines, cars & parts)	4,2%
National Oilwell Varco	industrial goods (oil field equipment & services)	3,8%
Samsung Electronics -preferred-	technology (semiconductors & consumer electronics)	3,7%
Village Super Market -A-	retail (supermarkets)	3,7%
Boskalis	industrial services (maritime services)	3,7%
Continental	industrial goods (tires & automotive components)	3,5%
Tarkett	consumer durables (flooring)	3,5%
SOL Group	healthcare (homecare, medical & technical gases)	3,5%
Bed Bath & Beyond	retail (general merchandise)	3,3%
Berentzen Gruppe	consumer goods (spirits & beverages)	3,2%
MPAC Group	industrial goods (packaging machinery)	3,1%
TGS Nopec	industrial services (seismic data)	3,0%
Nongshim Holdings	holding co. (Nongshim, packaging, food ingredients)	3,0%
Nichirin	industrial goods (automotive components)	2,4%
Zwack Unicum	consumer goods (spirits)	2,0%
Booking Holdings	retail (online travel & leisure)	2,0%
Ahold Delhaize	retail (supermarkets)	1,8%
Cash and other assets & liabilities		17,7%
		100,0%

After this year's portfolio changes, the aggregate intrinsic value of the Fund is an estimated € 380 per share, pointing to considerable upside potential. This number did not only increase due to the new portfolio additions but also due to better-than-expected profitability of the existing holdings (and to a certain extent more limited pandemic damage than anticipated). At a look-through valuation of less than 6x operating earnings and with an 8% free cash flow yield, Citadel's portfolio is still very attractively valued (the MSCI World index multiple is 17x operating earnings!). As per May 31st, 2021, the portfolio consists of holdings in 22 companies. The portfolio top-5 consists of three European companies, one American and one Asian business. Companies listed in Europe represent 47% of the Fund's NAV. The Fund's exposure to Asia (Japan and South Korea) is around 18%, down from 24% on November 30th. The exposure of Citadel to the US equity market has increased from 14% to 17%. The Fund's net cash balance per May 31st, 2021, amounted to 18% of NAV, a little lower than on November 30th but it still provides ample room to take advantage of market volatility. As we have experienced, attractive opportunities sometimes exist only for a day which makes it impossible to time investments beforehand. Hence the importance to have sufficient cash at hand to be ready to strike when opportunities present themselves. We still have some interesting investment opportunities on our shortlist, and it only takes a bit of market volatility and the right pricing discipline to put additional cash to work.

Portfolio by Sector



Portfolio by market capitalisation



Citadel's portfolio has always had a certain bias towards small caps, as this is a place where value opportunities often can be found. Currently, 29% of the Fund's portfolio are in the small cap segment. This is less than in the past, which signals the Fund was able to identify and add a good number of large cap and midcap companies with attractive value characteristics over the past 12-18 months. One of the large caps the Fund added to the portfolio last year was Swatch Group, an interesting and rewarding case we would like to elaborate on in the next section.

When the timing is right…

Switzerland is renowned for its luxury watchmakers' heritage. And the luxury goods sector is an attractive field of investment, typically because the buyer of luxury products is rather price indifferent. The brand premium usually translates into high stickiness of customers and high margins. How does the Swatch Group fit into this, a company of which the namesake brand is known for nice but relatively cheap watches? Well, delving deeper into an investment case like this reveals that Swatch watches account for perhaps 5% of Group revenue and are indeed unimportant in terms of their profit contribution. More important as a profit driver are the company's much larger luxury watch brands such as Omega, Longines, Blancpain and Breguet, predominantly selling at a €3000 - €12,000 price range per timepiece. Because Swatch has industrialised the watchmaking process (each year it produces up to 6 million watch movements, the mechanical core of a watch), it stands to reason that it can earn an attractive profit selling luxury watches at premium price points.

Swatch Group is a very conservatively run family business. Profit maximization is not always the number one consideration. But we can be assured that in every corner of the company, contingencies are built in. This is true from an operational side, e.g. full in-house production, so no dependence on 3rd parties, and always carrying significant inventory in order to minimize supply chain risks. From a financial perspective, the company is as solid as a rock. On principle grounds, the company has no debt. Furthermore, it owns quite some real estate (for own use as well as investment). Another hidden reserve is the significant gold and diamond inventory the company has purchased in the last few years when prices were much lower than today. This inventory will translate into a future profit windfall as soon as it will be used in new luxury products to be sold reflecting higher gold and diamond prices. You will not find this hidden value on Swatch's balance sheet though since conservative Swiss accounting requires these inventories to be valued at cost.

Swatch management has often been criticized for its conservativeness and operational slack in the business. We believe the pandemic will be a positive trigger in this respect. On the one hand, the pandemic gave the company a reason to reduce costs (exiting unprofitable retail store locations and trimming the workforce). On the other hand, its operations were less affected by supply chain disruptions compared to other companies due to its conservative inventory management and in-house capabilities. Adding to that Swatch's above average sales exposure to China where luxury sales are again booming, we reckon that the company will have strong years ahead. Most importantly, Citadel was able to lock in the desired margin-of-safety in the valuation when it bought shares in Swatch in 2020 at less than 6x normalized operating earnings and a 11% free cash flow yield. All in all, we are quite excited about this new holding and believe it will be a rewarding investment for Citadel.

In conclusion

We have not changed our cautious attitude towards financial markets and high valuations in general. At the same time, we hope that you share our excitement about the health and upside potential of Citadel's portfolio. We are particularly thankful for the steady support from you as shareholders during testing times. While we are happy about the results achieved, we remain humble about what the future will bring us. We wish you and your family a great Summertime with hopefully some free time to sit back and relax.

Kind regards,

The Board of Directors June 23rd, 2021
Citadel Value Fund SICAV