Shenandoah Asset Management, LLC

Quarterly Review: March 31, 2001

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Quarter	2001YTD
S&P 500	-6.4%	-11.8%	-11.8%
Dow Jones Industrials	-5.8%	-8.0%	-8.0%
NASDAQ	-14.5%	-25.5%	-25.5%
S&P/BARRA Value	-4.0%	-6.5%	-6.5%
S&P/BARRA Growth	-9.0%	-17.4%	-17.4%
S&P 500 Equal-Weighted	-5.0%	-4.4%	-4.4%
S&P 400 Midcap	-7.4%	-10.8%	-10.8%
Russell 2000	-4.9%	-6.5%	-6.5%

SECTORS:	2001Q1	2001YTD
Autos &Transportation	4.3%	4.3%
Consumer Discretionary	-0.8%	-0.8%
Consumer Staples	-8.3%	-8.3%
Financial	-8.7%	-8.7%
Health Care	-16.0%	-16.0%
Integrated Oils	-3.4%	-3.4%
Materials & Processing	-4.4%	-4.4%
Other Energy	-8.2%	-8.2%
Producer Durables	-11.4%	-11.4%
Technology	-29.4%	-29.4%
Utilities	-2.9%	-2.9%

The U.S. stock markets continued their lackluster performance during the first quarter. After the dust had settled from one of the ugliest pre-announcement periods on record, all of the major indices had registered negative returns. As was the case in the Q4’00, the NASDAQ led the way, down 25.5%, while the S&P 500 lost 11.8%. The Dow Jones Industrials, which, to date, had been able to escape much of the downdraft due its “old economy” exposure, lost 8.0% as investors grew increasingly concerned about the prospect of a broad economic slowdown/recession. Performance during the quarter was driven by similar patterns to those that we identified in our Q4’00 review, specifically:

- The quarter began strongly, driven, in part, by the Federal Reserve’s interest rate cut in early January. However, this initial optimism was more than offset during February and March by the constant flow of companies pre-announcing lower than expected Q1 earnings.
- Value investing continued to handily beat growth across the board, in the large cap. arena, the S&P/BARRA Value index out-performed its growth counterpart, returning –6.5% vs. –17.4% for the S&P/BARRA Growth index. This trend was even more evident in the mid-cap. and small-cap arena where the value indices returned -3.5% and –0.9%, respectively vs. –18.1% and –13.1% for the growth indices.
- Large-cap. stocks continued to under-perform during the quarter. The equal weighted S&P 500 index out-performed the cap-weighted version by 740bps in the first quarter and approximately 2,670 bps during the past 12 months. In addition, the equal weighted index now leads the cap-weighted index over the 2, 3, 4 and 10 year time periods ended 3/31/01.
- There were very few places to hide. Of the indices that we track, only two generated positive returns, the Russell 2000 Value index, up close to 1.0% and the S&P small-cap equal weighted index, up 0.5%.

How long these trends will continue remains to be seen, however; as the recent past has proved, it can be a mistake to assume that they will.

The breadth of the stock market weakness was evidenced by only one economic sector in the Russell 3000 index, Autos and Transportation, registering a positive result, up 4.3%, for the quarter. Another relatively bright spot was the Consumer Discretionary sector, down just 0.8%. We believe that both of these sectors were beneficiaries of thee Federal Reserve interest rate cuts, which reduced the risk that consumer spending would dry up and push the economy into recession. On the negative side of the ledger, Technology issues continued to be a source of funds, down 29.4%, as the market was greeted with daily negative Q1 earnings pre-announcements from technology related companies. In addition, as the quarter progressed, the timing of a possible turnaround in this sector became increasingly uncertain. Profit taking in the Healthcare, and Financial Services sectors, which had been two of the strongest performers in 2000, resulted in a drop during the quarter of 16.0% and 8.7%, respectively.

Model Attribution: *First Quarter, 2001*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow	Technical	Size
5 (high)	-5.6%	-11.5%	-1.7%	8.0%	12.3%	-5.2%	-13.0%
4	-8.5%	-6.4%	-2.6%	0.9%	4.5%	-6.5%	-7.0%
3	-5.6%	-5.9%	-3.6%	-4.1%	-4.3%	-4.6%	-8.7%
2	-6.6%	-4.5%	-8.2%	-8.0%	-11.8%	-4.2%	-3.2%
1 (low)	-4.6%	5.0%	-14.5%	-14.8%	-23.2%	-6.6%	2.2%
Spread	***-1.0%***	***-16.5%***	***12.7%***	***22.9%***	***35.5%***	***1.5%***	***-15.3%***

Note: "Spread" is the difference between the returns of the high (5) and low (1) quintiles by each model/measure.

The Shenandoah models confirm the strong value bias (anti-earnings?) evident in the market again this quarter. The following observations are consistent with what we would expect to see in a market which has moved sharply to the downside. In these markets, deep value stocks tend to be hurt less, while large growth stocks tend to be hurt badly as investors discount their rosy growth prospects down to more reasonable levels, or below.

- Consistent with the value theme, our Cashflow indicator was the best performing individual model for the period as indicated by the +35.5% spread between the returns of the best and worst quintiles.
- Insider Trading and our DDM added significant value during the period as well, as exhibited by the +12.7% and +22.9% inter-quintile spreads delivered by these variables respectively.
- The Earnings model (revision, surprise, and growth) under-performed dramatically (-16.5% spread) during the quarter. Investors focused on deep value stocks, ignoring earnings altogether.
- The Opt E/I model, which combines our Earnings and Insider Trading models into a single composite measure, lost value during the period.
- Price momentum (our Technical model) continues to add value, but now it's the "value" stocks leading the charge to the upside, while the darlings of 1999, tech- and telecomm stocks, have moved lower and lower.
- Size was a huge factor in determining performance this quarter. The smallest stocks out-performed the largest by a whopping 15.3% in this quarter alone.
- Note: We exclude internet and telecomm stocks from our process, so our strategy did not benefit from the sell-off in these areas.

It is interesting to note that while the value measures appeared to do very well in this period, almost all of the performance of our sub-models can be explained by the utter decimation of the technology and telecomm stocks. These stocks had appreciated so much (in price) over the 1995-1999 time period that their market caps got extremely large. Meanwhile their valuations had become more and more extreme. A review of the data above shows that it was precisely these large, over-valued, growth stocks which took the brunt of the market's down-draft during the first quarter.

The good performance of our value models translated to positive excess returns for our market neutral strategy this period. We were able to overcome the drag of our Earnings model, which is the most heavily weighted factor in our process. We look forward to the completion of the current earnings reporting season with the hope that our earnings model will pay-off and that investors will be reminded that earnings do matter.

Please refer to the attached analysis of the Market Neutral and Midcap (long-only) strategies.