Shenandoah Asset Management, LLC

Quarterly Review: March 31, 2003

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Quarter	YTD 2003
S&P 500	1.0%	-3.1%	-3.1%
Dow Jones Industrials	1.7%	-3.4%	-3.4%
NASDAQ	0.3%	0.4%	0.4%
S&P/BARRA Value	-0.1%	-5.5%	-5.5%
S&P/BARRA Growth	2.0%	-0.8%	-0.8%
S&P 500 Equal-Weighted	0.4%	-4.3%	-4.3%
S&P 400 Midcap	0.8%	-4.4%	-4.4%
Russell 2000	1.3%	-4.5%	-4.5%

	2003Q1	YTD 2003
BASIC MATERIALS	-7.5%	-7.5%
CAPITAL GOODS	-10.0%	-10.0%
COMMUNICATION SVC	-5.1%	-5.1%
CONSUMER CYCLICALS	-5.4%	-5.4%
CONSUMER STAPLES	-4.3%	-4.3%
ENERGY	-0.7%	-0.7%
FINANCIAL	-4.1%	-4.1%
HEALTH CARE	0.7%	0.7%
TECHNOLOGY	-0.3%	-0.3%
TRANSPORTATION	-6.1%	-6.1%
UTILITIES	-2.5%	-2.5%

The war with IRAQ was the primary market driver in Q1. Speculation regarding the prospects of a war with IRAQ occupied the headlines for the first two and half months. Once the war began, after a relief rally, the markets drifted as the focus turned to the length and likely outcome of the conflict. For the quarter, the major U.S. indices recorded mixed results. The NASDAQ was the best performing index, +0.4%, while the S&P 500 and the Dow Jones Industrials posted modest losses of –3.1% and –3.4%. The modest returns posted during the quarter mask the daily volatility that accompanied the markets, especially since the beginning of the war with IRAQ. More specifically, a number of underlying factors drove the markets performance during the quarter:

- Fed holds steady on interest rates. The ongoing geopolitical events made it almost impossible for the Fed to read the underlying strength of the US economy. As a result of the great level of uncertainty, at their February meeting, the FOMC governors choose to not provide any comments regarding the bias of risks in the US economy.
- Growth returns to favor. Although absolute returns were negative, Growth handily outperformed Value across all capitalization levels. The S&P/BARRA Growth index out-performed its Value counterpart, returning –0.8% vs. –5.5%. Mid-cap Growth outperformed Mid-cap Value –3.0% vs. –5.8% and Small-cap Growth outperformed Small-cap Value –3.6% vs. –8.0%
- Large-cap stocks outperformed Small-cap stocks. The Cap weighted S&P 500 index out-performed the Equal weighted version by +120 bps in the quarter and now leads the equal weighted index by +20bps over the past 12 months. However, the equal weighted index continues to lead the cap-weighted index over the 2, 3, 4, 5 and 10-year time periods.
- U.S. economy recovery remains on hold. Recent economic indicators point to a slowdown in US economic activity so far this year. With geopolitical tension and the eventual war with IRAQ being blamed for part of the current malaise, uncertainty remains regarding the speed of a recovery upon, what now appears to be, the eventual victory of the allied troops in IRAQ.
- A look ahead to Q1 EPS reporting season: Given the economic and geopolitical uncertainty that has dogged US companies, it is not surprising that there was a pickup in the number of negative pre-announcements entering the Q1 EPS reporting season. In general, it is unlikely that company managements will be willing to talk up future prospects without a clear resolution to the situation in IRAQ and/or indications of an improving economy, in our opinion. That said a quick resolution in IRAQ could improve the tone, if not the substance, of comments from companies.

The Healthcare sector, up +0.7% was the only sector to record a positive result for the quarter. Against an uncertain economic backdrop, the Healthcare sector benefited from continued EPS improvement, especially in the Healthcare Services industry. The Capital Goods sector, down -10.0% was negatively impacted by economic weakness and continued problems in the airline industry, which negatively impacted aerospace related companies.

Model Attribution: *First Quarter, 2003*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow	Technical	Size
5 (high)	-2.7%	-1.1%	-3.7%	-3.6%	-1.1%	-3.2%	-3.8%
4	-1.6%	-2.6%	-5.3%	-6.4%	-4.5%	-2.6%	-1.9%
3	-3.5%	-4.8%	-3.9%	-3.7%	-3.8%	-5.1%	-3.7%
2	-6.1%	-5.3%	-3.8%	-3.8%	-4.5%	-5.5%	-3.6%
1 (low)	-5.4%	-7.0%	-1.6%	-2.3%	-4.6%	-2.7%	-6.2%
Spread	***2.6%***	***5.9%***	***-2.1%***	***-1.3%***	***3.5%***	***-0.5%***	***2.4%***

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

The Shenandoah models posted mixed results during the quarter. On a monthly basis, the Earnings model was the only consistent winner, returning a positive spread in all three months, during the quarter.

We believe that sector moves continue to drive the performance of fundamentals, rather than fundamentals driving performance. Apart from the Earnings and, to a lesser extent, the Cashflow model, the SAM models exhibited somewhat random returns (no monotonic pattern) illustrating the frequent changes in investor sentiment and leadership that occurred during the quarter. The following table provides an example of some industry monthly returns.

Industry	**January**	**February**	**March**
Broadcasting	+5.2%	-6.1%	-2.7%
Medical Services	+2.7%	-7.6%	+5.8%
Oil Services	-4.9%	+6.6%	-4.6%
Apparel and Textiles	-6.5%	+0.6%	+7.5%

- The Earnings model, spread was +5.9%, a reversal of its poor Q4 performance. After the speculative rally that occurred in October and November 2002 during which investors appeared to disregard earnings it was pleasing to see a return to fundamentals.
- The Insider Transaction model spread was, –2.1%. Although we believe that investors continue to focus on Insider activity as an indication of a company's future performance, clearly the focus in this quarter was on Earnings.
- The OPT E/I model (Earnings and Insider Trading) spread was +2.6%, as the positive Earnings performance more than offset the negative Insider Transaction model spread.
- Our value models produced mixed results. The DDM model recorded a negative spread, -1.3%, while the Cashflow model spread was +3.5%. Why the difference? The models are different. Therefore, although there is an overlap, the stocks that make up quintiles 1 to 5 in the DDM model are not necessarily in the equivalent Cashflow model quintile. For example, the Auto and Truck industry, that scored higher on the DDM than on the Cashflow model, under-performed the S&P 500 by approximately 500bps during the quarter and was a key driver of the DDM negative model relative performance.
- Price momentum (our Technical model) returned a negative spread, -0.5%. This performance is not surprising given the level sector and industry rotation that occurred during the quarter. (Note: We do not use price momentum in our investment process.)
- The largest stocks out-performed the smallest by +2.4% for the quarter.