Shenandoah Asset Management, LLC

Quarterly Review: December 31, 2005

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q4'05	1 Yr
S&P 500	0.0%	2.1%	4.9%
Dow Jones Industrials	-0.7%	2.1%	1.7%
NASDAQ	-1.2%	2.5%	1.4%
S&P/Citigroup Growth	0.0%	1.3%	1.1%
S&P/Citigroup Value	0.1%	3.0%	8.7%
S&P 500 Equal-Weighted	0.8%	2.5%	8.2%
S&P 400 Midcap	0.7%	3.3%	12.5%
Russell 2000	-0.5%	1.1%	4.5%

	Q4'05	YTD '05
Energy	-3.5%	45.6%
Materials	5.6%	5.2%
Industrials	4.0%	11.1%
Consumer Discretionary	3.5%	0.7%
Consumer Staples	-3.1%	0.3%
Health Care	1.8%	13.6%
Financials	3.9%	2.9%
Information Technology	3.5%	1.7%
Telecommunications	-1.9%	-0.7%
Utilities	-7.6%	8.2%

The low single digit gains recorded by many of the major equity indices in Q4 masked the intra-quarter volatility. Lower (relative to the highs reached in September) oil prices and generally better than expected corporate earnings were partly offset by concerns about inflation, higher interest rates and a potential slowdown in the US economy. The market rally in November, following negative performance in October, failed to materialize into the much-anticipated “Santa Claus” rally in December. Investors remained uneasy about the outlook for 2006. Therefore, they were unwilling to bid equity prices higher ahead of the New Year. Major equity index returns: DJIA +2.1%, S&P 500 +2.1% and the NASDAQ +2.6%. More specifically, a number of underlying factors drove the market’s performance during the quarter:

•***Fed tightening is likely to end in early ‘06.*** The Fed added a further +0.50% (two +0.25% increases) to the Fed Funds rate, which ended the quarter at 4.25%. The consensus view is that the FOMC will vote to raise interest rates a further +25 bps at its January meeting (Mr. Greenspan is scheduled to retire after this meeting). The need for interest rate increases beyond the January meeting remains a hotly debated topic. Recently released FOMC meeting minutes indicate that many of the FOMC governors acknowledge that the interest rate increases are coming to an end. With this in mind, it appears unlikely that interest rates will be raised far, if at all, beyond the 4.5% level that should be reached at by the end of the January meeting.

▪***Value vs. Growth results mixed.*** In general, growth out-performed during the market rally in November, however; there was not a clear style winner in the negative and flat performance months of October and December. Sector weighting, especially in extreme performing sectors, i.e. Materials, Energy and Utilities, was likely a key driver of style performance. For the quarter, the S&P/Citigroup Value index out-performed its Growth counterpart, returning +3.0% vs. +1.3%, S&P/Citigroup Mid-cap Growth out-performed Mid-cap Value +5.0% vs. +1.7%, and S&P/Citigroup Small-cap Value out-performed Growth +1.2% vs. -0.5%. Note: Growth out-performed Value across all of the Russell Indices that we monitor.

▪***Large vs. small-cap results also mixed.*** The equal-weighted S&P 500 index out-performed the cap-weighted version by +40 bps in the quarter (+2.5% vs. +2.1%). Furthermore, the equal weighted index leads the cap-weighted index by +330 bps over the past 12 months (+8.2% vs. +4.9%) and also dominates over the 2, 3, 4, 5 and 10-year time periods. That said, when comparing the cap-weighted indexes, large-cap outperformed small-cap, i.e. the Russell Top 200 and the S&P 500 (both large cap indexes) outperformed the Russell 2000 (small) by -89 bps and -95 bps, respectively.

▪***Corporate earnings Q4’05 and FY’06 outlook.*** Q4’05 operating earnings for the S&P 500 are forecast to grow +14% (y/y). Of course, not all sectors are expected to perform at this level. At the extremes, the Energy and Healthcare sectors are expected to report y/y growth of +55% and +25%, respectively vs. the -9% and -4% growth expected for the Materials and Consumer Staples sectors. Looking out to ‘06, S&P 500 operating earnings are forecast to log a fourth year of double digit gains, +11%. After struggling in 2005, the Consumer Discretionary sector is expected to be a key driver of this growth (+20% y/y). Growth in the Energy sector, forecast in the high single digits, will be significantly lower than the 40%+ reported in the last two years.

For the quarter, the Materials sector, up +5.6% was the best performer, due to the continued strong demand for raw materials, especially from countries outside of the US, such as China. The Utility sector, down –7.6% was negatively impacted by a number of factors including: higher bond yields lowering the relative attractiveness of their dividend yields, valuation concerns and a warmer than normal start to the US heating season. Year to date, Energy, up +45.6% was the best performing sector while Telecommunications, down -0.7% was the laggard.

Model Attribution: *Fourth Quarter, 2005*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow
5 (high)	3.6%	1.5%	2.8%	3.8%	2.0%
4	1.0%	2.1%	2.8%	4.7%	2.9%
3	1.9%	4.2%	2.8%	2.9%	2.5%
2	3.1%	1.7%	2.7%	2.3%	1.6%
1 (low)	2.8%	2.7%	1.2%	-0.1%	3.2%
Spread	***0.8%***	***-1.2%***	***1.7%***	***3.9%***	***-1.2%***

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 for the quarter. The DDM model, +3.9% was the best performing model. The Insider and OPT E/I models also recorded positive spreads, +1.7% and +0.8%, respectively. However, the Earnings and Cashflow model spreads were both negative.

None of the inter-quintile model spreads exhibited a clear monotonic pattern. The lack of a monotonic pattern is indicative of the sector and industry rotation that occurred during the quarter, primarily in the energy and interest rate sensitive areas of the economy, driving the performance of our models. The following is an overview of factors that influenced the performance of our models during the quarter.

▪The Earnings model spread was -1.2%. Monthly spreads were driven by the under-performance of Energy stocks ranked strongest (quintile 5) by this model, during the market sell-off in October vs. the general out-performance of stocks ranked weakest (quintile 1) during the market rally in November.
▪The Insider Transactions model spread was +1.7%. The positive spread was the result of the general under-performance of stocks ranked weakest (quintile 1) during the market sell-off in October. The Insider spread was essentially flat for quintiles 5 through 2. **Note: Insider selling moved back to a decidedly bearish level** as insiders sold into the November rally. The selling continued through the end of the year. **We believe that this is a negative signal for the near-term performance of equities**.
▪The OPT E/I model (Earnings and Insider Transactions) spread was +0.8%. The negative performance of the Earnings model, which is the most heavily weighted model in our process, was more than offset when combined with the positive Insider model performance.
▪Our Value models recorded mixed results: DDM +3.1% and Cashflow -2.0%. The ranking of Energy stocks within the two models continues to be a primary driver of the spread performance disparity. This quarter, it was the under-performance of Energy stocks ranked weakest (quintile 1) vs. strongest (quintile 5) by the DDM and Cashflow models, that was a key driver of the performance gap.

Only one of the Shenandoah models recorded a negative spread for the year, DDM -5.2%. The Earnings model, +10.9% (the most heavily weighted factor in our process), and the Insider Transaction model, +4.3% combined to provide an OPT E/I model spread of +12.4%. The valuation model spreads are significantly different; Cashflow +12.9% vs. DDM -5.2%. As we have noted earlier this is due, in part, to the ranking of Energy stocks by the valuation models, which excluding the most recent quarter, benefited the Cashflow model spread. The OPT E/I, Earnings and Cashflow models have exhibited the clearest inter-quintile spread pattern (monotonic) YTD. The Insider model spread was all in the tails (strongest vs. weakest) while the DDM model YTD inter-quintile spread pattern was "upside down."

Model Attribution: *Year to Date 2005*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow
5 (high)	16.9%	14.5%	9.8%	6.9%	17.4%
4	10.2%	12.3%	11.0%	7.7%	13.4%
3	10.1%	10.1%	11.8%	8.6%	9.4%
2	7.0%	8.3%	10.6%	13.8%	4.4%
1 (low)	4.5%	3.6%	5.4%	12.2%	4.4%
Spread	***12.4%***	***10.9%***	***4.3%***	***-5.2%***	***12.9%***