Shenandoah Asset Management, LLC

Quarterly Review: December 31, 2006

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q4'06	1 Yr
S&P 500	1.4%	6.7%	15.8%
Dow Jones Industrials	2.1%	7.4%	19.0%
NASDAQ	-0.7%	7.0%	9.5%
S&P/Citigroup Growth	0.4%	5.7%	11.0%
S&P/Citigroup Value	2.4%	7.7%	20.8%
S&P 500 Equal-Weighted	0.8%	7.1%	16.2%
S&P 400 Midcap	-0.5%	7.0%	10.3%
Russell 2000	0.3%	8.9%	18.4%

	Q4'06	YTD '06
Energy	8.7%	12.4%
Materials	14.0%	22.9%
Industrials	8.0%	15.8%
Consumer Discretionary	8.5%	13.5%
Consumer Staples	4.6%	15.4%
Health Care	3.0%	7.1%
Financials	5.4%	13.1%
Information Technology	5.7%	9.5%
Telecommunications	11.7%	35.1%
Utilities	8.5%	18.9%

Equity markets marched steadily higher throughout the fourth quarter. Continued corporate earnings growth, stable interest rates, moderating inflation concerns and a relatively calm geo political environment more than offset a stream of economic reports indicating that the US economy may be slowing more rapidly than expected. For now, investors appear to be betting that the economy is at or near the bottom for this cycle with a moderate pickup in growth expected in 2007, possibly primed by a reduction in the Fed Funds rate. By quarter-end many of the major equity indices traded at or near record or multi-year highs. Major equity index returns: DJIA +7.4%, NASDAQ +7.0% and the S&P 500 +6.7%. More specifically, a number of underlying factors drove the market's performance during the quarter:

•***The Fed remained on hold, the direction of the next move is uncertain.*** As we expected, the FOMC chose to leave the Funds rate unchanged (5.25%) when it met in October and December. Analyzing the outlook for interest rates from an economists point of view, on the one hand, the most recent batch of economic reports indicate that the FOMC's previous interest rate increases are beginning to put the brakes on economic growth. Some in the market place view this as a need for the Fed to begin to lower interest rates in '07 to avoid pushing the economy into recession. However, on the other hand, the Fed governors appear unwilling to give the "all clear" on the inflation front, due to the volatility of the most recent reports, primarily at the producer level. With this in mind, we believe that the Fed is unlikely to adjust interest rates in the near term.

•***Value continued its dominance over Growth.*** Sector weighting, especially in weaker Healthcare and Consumer Staples sectors, was likely a primary driver of the style performance difference. For the quarter, the S&P/Citigroup Value index out-performed Growth, returning +7.7% vs. +5.7%, S&P/Citigroup Mid-cap Value out-performed Mid-cap Growth +7.9% vs. +6.0, and S&P/Citigroup Small-cap Value out-performed Growth +8.4% vs. 7.3%. Note: Value out-performed Growth in all capitalization ranges of the Russell Indices that we monitor.

▪***Small-cap was back in style.*** After lagging large cap for the prior two quarters, small-cap equities outperformed during Q4. Small-cap Materials and Healthcare stocks significantly outperformed their large-cap counterparts. The equal-weighted S&P 500 index out-performed the cap-weighted version by +40 bps in the quarter (+7.1% vs. +6.7%). The equal weighted index also ended the year slightly ahead (+40 bps) of the cap-weighted index (+16.2% vs. +15.8%) and dominates over the 2, 3, 4, 5 and 10-year time periods. The relative strength of small-cap stocks was also apparent in the Russell indices, i.e. the Russell 200 (large-cap) under-performed the Russell 2000 (small-cap index) by -220 bps.

▪***Q4 EPS season – let the slowdown begin?*** Going into Q3 EPS reporting season, we believed that the slowing economy may have resulted in S&P 500 index being unable to meet the +14% year/year (y/y) EPS growth hurdle. We were wrong. The reported S&P 500 index EPS growth for Q3 came in at +22.3%. That said, outside of the S&P 500 index we saw a below average percentage of companies reporting better than expected EPS results. We believe that this is indicative of the negative impact that the economic slowdown is having on corporate earnings growth vs. Wall Street expectations. With this in mind, Q4 EPS y/y growth expectations for the S&P 500 index have fallen to just over +9%. If earnings come in as expected, which we believe is unlikely, this will be the first quarter in 19 that the index has failed to breach the +10% y/y growth level. Also notable is that the Energy and Materials sectors, both key drivers of the recent strength in EPS growth, are forecast to post y/y decreases in Q4 and only single digit growth in 2007. With companies possibly stretching to meet EPS goals, investors should be on the look out for any signs of deteriorating earnings quality.

Sector performance was positive across the board. The Materials sector, up +14.0%, benefited from continued strong demand for commodities around the world, especially in countries investing heavily in infrastructure projects such as China and India. The Healthcare sector, +3.0%, increased competition is keeping a lid on prices while in many cases costs continue to increase, dampening profitability. Year to date, Telecom, up +35.1% helped by a wave of M&A activity was the best performing sector while Healthcare, +7.1% was the laggard.

Model Attribution: *Fourth Quarter 2006*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow
5 (high)	7.4%	8.1%	8.5%	9.5%	8.0%
4	6.7%	5.1%	7.3%	6.5%	8.0%
3	8.1%	6.8%	8.7%	7.3%	7.1%
2	6.7%	7.2%	6.5%	6.9%	6.5%
1 (low)	8.6%	10.4%	6.5%	5.8%	7.8%
Spread	***-1.1%***	***-2.3%***	***2.0%***	***3.7%***	***0.1%***

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. Conflicting spread results for our two primary models Earnings (-) and Insider (+) resulted in a moderately negative OPT E/I (which is a proprietary combination of our Earnings and Insider Transaction models) spread. Our valuation models, DDM and Cashflow, both logged positive results, albeit slight in the case of Cashflow.

None of the Shenandoah models exhibited a clear positive monotonic pattern this quarter. The average quintile performance of 7%+ is indicative of the breadth of the market strength during this period. Excluding the out-performance of stocks ranked strongest (quintile 5) by the Insider and DDM models and stocks ranked weakest (quintile 1) by the Earnings model, the spreads of these models were essentially flat. The following is an overview of factors that influenced the performance of our models during the quarter.

▪***The Earnings model spread was -2.3%.*** The negative spread was due, in part, to the out-performance of a number of companies ranked weakest (quintile 1) by this model. In many cases the strong performance of these companies was driven by factors outside of their current earnings characteristics, i.e. takeovers, rumored takeovers, and legal announcements. In line with the noted deterioration in the percentage of companies reporting better than expected EPS results during the quarter, we saw a slight drop in the percentage of our Long holdings that reported better than expected EPS to 72%. Although down from recent quarterly results this is in line with the historical average and still ahead of the market average of 60% to 65%.

▪***The Insider Transactions model spread was +2.0%.*** Clearly investors discounted stocks with the greatest amount of Insider selling during this period. **Note:** The level of **Insider selling reached a record level** late in the quarter. Although it is not unusual for Insiders to increase their selling during a period of market strength, it is unusual for the selling to continue during what has been historically a seasonally slower period for Insider selling, i.e. November and December. Viewed as a contrarian indicator, i.e. we saw insiders buying heavily during late '02 and early '03 ahead of the market rally; we believe that the current level of insider selling is a **Bearish indicator** of near-term equity market performance.

▪***The OPT E/I model (Earnings and Insider Transactions) spread was -1.1%.*** The negative performance of the Earnings model, which is the most heavily weighted model in our process, was partly offset by the positive performance of the Insider model.

▪***Our Valuation models recorded flat to positive results: Cashflow +0.1% and DDM +3.7%.*** The DDM model spread benefited from the relative out-performance of Materials, Industrial and Consumer Discretionary stocks ranked strongest (quintile 5) by the model. The out-performance of stocks in these sectors ranked weakest (quintile 1) by the Cashflow model negatively impacted the spread . Note: Excluding the performance of stocks ranked weakest (quintile 1) by Cashflow there was a positive +1.2% spread between stocks ranked strongest (quintile 5) and the second weakest group (quintile 2).

Year to date, Shenandoah model results were flat to positive. The Earnings model, -0.2% (the most heavily weighted factor in our process), and the Insider Transaction model, +6.3% combined to provide an OPT E/I model spread of +1.9%. The DDM model was the best performing model, +8.9% primarily due to the underperformance of the stocks ranked weakest (quintile 1) by this model. The Cashflow model spread, +0.7% was dampened by a concentration of under-performing Energy stocks ranked strongest (quintile 5). None of the models exhibited a clear inter-quintile spread pattern (monotonic).

Model Attribution: *Year to Date 2006*

Quint	Opt E/I	Earnings	Insider	DDM	Cashflow
5 (high)	15.8%	17.0%	16.6%	17.8%	14.4%
4	13.9%	11.4%	16.7%	16.9%	16.6%
3	16.4%	14.7%	15.5%	17.8%	15.1%
2	14.2%	13.8%	15.2%	13.2%	14.4%
1 (low)	13.9%	17.3%	10.3%	8.9%	13.7%
Spread	***1.9%***	***-0.2%***	***6.3%***	***8.9%***	***0.7%***