Shenandoah Asset Management, LLC

Quarterly Review: June 30, 2007

121 Shockoe Slip
Richmond, VA 23219
(804) 343-1400
e-mail: cmclennan@samllc.com

Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q2'07	1 Yr
Russell 3000	-1.9%	5.8%	20.1%
Russell Top 200	-1.8%	6.2%	20.3%
Russell Midcap	-2.3%	5.3%	20.9%
Russell 2000	-1.5%	4.4%	16.4%
Russell 3000 Growth	-1.4%	6.9%	18.9%
Russell 3000 Value	-2.3%	4.7%	21.4%
Dow Jones Industrials	-1.5%	9.1%	23.1%
NASDAQ Composite (Prc Chg)	-0.1%	7.5%	19.9%
S&P 500 Cap-Weighted	-1.7%	6.3%	20.6%

Sector	Q2'07	YTD '07
Energy	15.0%	23.5%
Materials	8.6%	19.5%
Industrials	11.1%	17.0%
Consumer Discretionary	3.6%	7.3%
Consumer Staples	2.1%	7.0%
Health Care	2.6%	7.9%
Financials	-0.5%	-3.4%
Information Technology	9.6%	12.2%
Telecommunications	7.3%	6.3%
Utilities	-2.9%	2.6%

Equity markets posted results ranging from solid to spectacular during the quarter. After muddling through the first quarter, equity markets were sparked into action during April. A number of factors including, generally better than expected Q1 EPS reports, continued merger and acquisition activity, a resilient consumer and rising expectations of a cut in the Fed funds rate, were key positive drivers, primarily in April and May. As indices began to reach multi-year and all time highs investors turned cautious and began to focus on factors that could bring the market rally undone, i.e. the sub-prime lending debacle, stubbornly high oil and gasoline prices, inconsistent economic data and the realization that the FOMC was not going to be lowering the Fed funds rate anytime soon. The result of this hand wringing was an increase in volatility, low single digit losses for June. Major equity index returns: DJIA +9.1%, NASDAQ +7.5% and the S&P 500 +6.3%. More specifically, a number of underlying factors drove the market's performance during the quarter:

▪***Mixed economic signals leave the Fed on the interest rate fence.*** It came as no big surprise that the FOMC choose to leave the Funds rate unchanged (5.25%) when it met in May and June. The FOMC faces the classic economic dilemma, on one hand the continued unraveling of the housing market was a key driver of Q1's anemic GDP growth (the slowest since late 2000). The slow growth raised hopes that the Fed would need to lower interest rates in an effort to prime the economic pump. However, on the other hand, although improving, the Fed Governors continue to describe the inflation risk as "elevated." Given the Fed's Hawkish view on inflation, the low unemployment level and expectations of a pickup in economic activity later in 2007, it seems unlikely that they would risk adding fuel to the inflationary fire by lowering interest rates. Against this backdrop, we believe it is unlikely that the FOMC will make an interest rate adjustment in the near-term.

▪***Growth beat Value across all cap ranges.*** For the quarter, the Russell 3000 Growth index out-performed Value, +6.9% vs. +4.7%, Mid-cap Growth out-performed Mid-cap Value +6.8% vs. +3.7%, and Small-cap Growth out-performed Value +6.7% vs. +2.3%. The likely driver of Growth's domination this quarter was the disparate relative performance of the Financial (underperformed) and Technology (outperformed) sectors. These two sectors account for the largest weighting differences between the style benchmarks. The Growth benchmark has a relative under and over weighting in Financials and Tech vs. their respective weights in the Value indices. ***Note:*** Growth was also the dominant style for the S&P indices.

▪***Large-cap beats Small-cap, just.*** Large-cap equities outperformed Small-cap this quarter. The cap-weighted S&P 500 index out-performed the equal-weighted version by +60 bps in the quarter (+6.3% vs. +5.7%). The equal weighted index leads the cap-weighted index over the past 1, 3, 5 and 10-year time periods. Large-cap Russell indices also outperformed their smaller-cap brethren, i.e. the Russell 200 (large-cap) out-performed the Russell 2000 (small-cap index) by +180 bps and +390 bps for the most recent quarter and 12 months, respectively.

▪***Sector performance was generally positive, the rising tide raised most ships.*** The Energy sector, up +15.0%, benefited from high oil and gasoline prices. Although not great for consumers, higher prices are considered a boon for companies operating in the Energy patch. The Utility sector, down -2.9%, was the laggard. Relatively slow growth, higher interest rates and a slowdown in M&A activity combined to dampen performance. YTD, Energy up +23.5% was the best performing sector. Financials, down -3.4% is the only sector to register a negative return for the 12 months. Factors weighing on the sector are well documented, i.e. slowing loan growth, higher delinquencies and shrinking lending spreads.

Q2'07 EPS reporting season – lowered expectations could result in an upside surprise. Companies that the comprise the S&P 500 are expected to report year/year (y/y) Q2'07 EPS growth of +5.7%, down from +13% in the same period last year. The slowdown is due, in part, to a significant reduction in y/y growth expectations for Energy, Consumer Discretionary and Financial sector companies. Together these three sectors account for approximately 42.0% of the S&P 500 total market capitalization. However, given that 60% to 65% (average) of reporting companies beat estimates, it is likely that the final Q2 EPS growth will be higher than the current expectation and could nudge up towards double figures, in our opinion.

Model Attribution: *Second Quarter 2007*

Quint	Opt E/I	Earnings	Insider	QV	Cashflow
5 (high)	8.3%	8.7%	6.6%	8.3%	8.5%
4	6.1%	6.7%	5.8%	4.4%	5.5%
3	5.4%	4.9%	7.2%	3.6%	6.3%
2	6.4%	5.5%	5.6%	6.8%	4.0%
1 (low)	5.1%	5.6%	6.2%	8.5%	7.1%
Spread	***3.2%***	***3.0%***	***0.4%***	***-0.2%***	***1.3%***

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

The **Shenandoah models posted positive results for the quarter**, except for the slightly negative QV model spread. Our OPT E/I, Earnings and Cashflow models recorded the highest spreads while the Insider model spread was less robust. The positive mid to high single digit returns across all of the model quintiles is indicative of the breadth of the equity market rally during the quarter.

None of the Shenandoah models exhibited a clear positive monotonic pattern. This is indicative of sector and industry rotation muddying the performance of the model quintiles, especially quintiles 4 through 2. The following is an overview of factors that influenced the performance of our models during the quarter.

- ***The Earnings model spread was +3.0%.*** Late in the quarter it appeared that investors began positioning their portfolios ahead of the upcoming Q2 EPS reporting period, i.e. buying stocks with the best earnings characteristics and selling or avoiding (in a benchmark relative world) stocks with worst earnings characteristics.
- ***The Insider Transactions model spread was +0.4%.*** We saw a pickup in insider buying during the period surrounding the June market weakness. As a result the overall level of **Insider selling nudged into Neutral territory,** down from the record levels reached earlier in the year. However, the recent pickup in insider buying was not enough to reverse the **longer-term Bearish trend.**
- ***The OPT E/I model (Earnings and Insider Transactions) spread was +3.2%.*** When combined with the Insider Transaction model the strong performance of the Earnings model, which is the most heavily weighted model in our process, improved slightly.
- ***Our Valuation models recorded disparate spreads: Cashflow (+1.3%) and QV (-0.2%).*** The out-performance of Cashflow vs. QV was due, in part, to above average performance of stocks ranked worst (quintile 1) by the QV model.

Product Performance

Strategy	1 Month	3 Months	YTD	1Year	Since incep	AUM ($ mill)	Inception
Midcap Composite (Gross)	-1.2%	7.4%	14.6%	26.9%	19.0%	$ 289.4	*04/02/01*
Midcap Composite (Net)	-1.2%	7.3%	14.4%	26.5%	18.6%		
Russell Midcap	*-2.0%*	*5.9%*	*10.5%*	*21.5%*	*17.5%*		
Large Value (Gross)	-1.5%	6.3%	8.7%	24.2%	18.8%	$ 19.1	*02/01/06*
Large Value (Net)	-1.6%	6.2%	8.5%	23.7%	18.4%		
Russell 1000 Value	*-2.3%*	*4.9%*	*6.2%*	*21.9%*	*17.1%*		
130/30 (Gross)	-0.2%	na	na	na	-0.2%	$ 12.7	*06/01/07*
130/30 (Net)	-0.3%	na	na	na	-0.3%		
Russell 1000	-1.9%	na	na	na	-1.9%		
					Total Firm	***$ 321.2***	

Performance Highlights:

•All Shenandoah strategies registered strong relative performance during the quarter.

•Strong start for the new 130/30 Alpha Extension product (+170 bps vs. Russell 1000 in June).

•Midcap strategy (gross) is +540 bps and +150 bps ahead of the Russell Midcap benchmark for the one year and since inception (annualized) periods, respectively.

•Large Value strategy (gross) is +230 bps and +170 bps ahead of the Russell 1000 Value benchmark for the one year and since inception (annualized), respectively.