Shenandoah Asset Management, LLC

Quarterly Review: September 30, 2007

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q3'07	1 Yr
Russell 3000	3.7%	1.5%	16.5%
Russell Top 200	4.0%	3.0%	16.6%
Russell Midcap	3.3%	-0.4%	17.9%
Russell 2000	1.7%	-3.1%	12.3%
Russell 3000 Growth	4.1%	3.8%	19.3%
Russell 3000 Value	3.2%	-0.8%	13.7%
Dow Jones Industrials	4.2%	4.2%	21.7%
NASDAQ Composite (Prc Chg)	4.1%	3.8%	19.6%
S&P 500 Cap-Weighted	3.7%	2.0%	16.4%

	Q3'07	YTD '07
Energy	7.9%	33.2%
Materials	1.3%	21.1%
Industrials	3.0%	20.5%
Consumer Discretionary	-7.8%	-1.1%
Consumer Staples	3.3%	10.5%
Health Care	1.7%	9.7%
Financials	-3.8%	-7.1%
Information Technology	3.0%	15.7%
Telecommunications	0.3%	6.6%
Utilities	0.6%	3.2%

Credit and economic concerns drove volatile intra-quarter performance. With most equity indices trading at multi year highs, after a strong Q2, the third quarter began with some profit taking. In the later part of July, reports began to surface regarding the size and breadth of the sub-prime mortgage related problems. The selling pressure intensified as concerns grew that a credit crisis could tip the US economy into recession. However, by late August, market sentiment and performance had improved significantly as it became apparent that the Federal Reserve was willing to supply liquidity and cut interest rates in an effort to avoid a fall blown crisis. Against this volatile backdrop US equity markets managed to log solid positive returns. More specifically, a number of underlying factors drove the market's performance during the quarter:

- ***After months of sitting on its hands, the Fed was spurred into action.*** It appears that the FOMC was caught off-guard by the speed and breadth of the sub-prime related fall-out. On August 7th the FOMC voted to leave the Funds rate at 5.25% and maintained its inflation bias. Less than two weeks later (August 17th) sensing that things were getting out of hand, the Fed stepped in and lowered its discount rate (the rate that banks pay on loans from the Fed). The Fed noted that the tightening of the credit market had tipped the risk to the economy towards economic weakness and away from inflation. At its September 18th meeting the FOMC voted to cut the Fed Funds rate by -50 bps to 4.75% vs. the consensus expectations of a -25 bps cut. Equity markets rallied sharply following the rate cut announcement betting that the Fed's change in policy will re-invigorate economic growth and avoid a recession.
- ***Growth beat Value across all cap ranges, again.*** For the quarter, the Russell 3000 Growth index out-performed Value, +3.8% vs. -0.8%, Mid-cap Growth out-performed Mid-cap Value +2.2% vs. -3.5%, and Small-cap Growth out-performed Value +0.0% vs. -6.3%. The disparate relative performance of the Technology (strong) and Financial (weak) sectors likely continues to drive the out-performance of Growth vs. Value. These two sectors account for the largest weighting differences between the style benchmarks. The Growth benchmark has a relative over and under weighting in Technology and Financials vs. their respective weights in the Value indices. ***Note:*** Growth was also the dominant style for the S&P indices.
- ***Large-cap outperformed small-cap equities.*** Large-cap equities outperformed Small-cap this quarter. The cap-weighted S&P 500 index out-performed the equal-weighted version by +420 bps in the quarter (+2.0% vs. -2.2%) and now leads for the 1 and 2 year periods. The equal weighted index leads the cap-weighted index over the 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 +610 bps and +430 bps for the most recent quarter and 12 months, respectively.
- ***The Energy sector led the way higher; Consumer Discretionary struggled.*** The Energy sector, up +7.9%, continues to benefit from high oil prices. Although not great for consumers, higher prices are considered a boon for companies operating in the Energy patch. The Consumer Discretionary sector, down -7.8%, was the laggard. Expectations of a sharp slowdown in economic growth, due in part, to housing weakness, higher oil prices and tighter credit had investors rotating out this sector. YTD, Energy up +33.2% was the best performing sector. Financials, down -7.1% has been unable to gain any traction. Factors weighing on the sector are well documented, i.e. slowing loan growth, higher delinquencies, shrinking lending spreads and exposure to the sub-prime related debt issues.

Q3'07 EPS reporting season – lowered expectations could result in more upside surprises; company outlooks for Q4 and FY 2008 should be the key driver of near-term equity market performance. Companies that the comprise the S&P 500 are expected to report year/year (y/y) Q3'07 EPS growth of just +1.9%, down from 20%+ in the same period last year. Negative y/y comparisons in a number of sectors, i.e. Consumer Discretionary and Financials is the primary driver of the anemic growth expectations. Although down from earlier in the year, EPS growth expectations for Q4'07 and FY'08 EPS remain in the low double digits. Given expectations of a slowdown in economic growth, it is likely that these estimates will need to be lowered. Multi-national companies are expected to benefit from exposure to faster growing international markets and the positive business effects of the relatively weak $US. This should offset some of the expected weakness in the U.S.

Model Attribution: *Third Quarter 2007*

Quint	Opt E/I	Earnings	Insider	QV	Cashflow
5 (high)	0.2%	2.9%	-3.2%	-6.1%	-1.6%
4	1.9%	0.9%	-3.7%	-3.1%	-2.8%
3	-1.0%	-0.9%	-1.1%	-3.1%	-2.4%
2	-0.9%	-2.1%	0.8%	1.2%	-0.7%
1 (low)	-7.1%	-7.7%	0.1%	5.4%	-0.2%
Spread	***7.3%***	***10.6%***	***-3.3%***	***-11.5%***	***-1.4%***

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.** Our Earnings and OPT E/I models recorded significant positive spreads. However, the Insider Transactions and Valuation model spreads were negative. The broad range of average quintile performance (+5.4% to -7.7%) is indicative of the significant disparity between, size, sector and style performance this quarter. The Earning model was the only Shenandoah model that exhibited a clear positive monotonic spread pattern. The QV model spread pattern was close to monotonic, unfortunately, it was upside down. The following is an overview of factors that influenced the performance of our raw models.

▪***The Earnings model spread was +10.6%.*** Given expectations for a slowdown in economic growth, it is not surprising that investors were focused on earnings momentum when considering their buy/sell decisions 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 -3.3%.*** We saw a pickup in insider buying during the period surrounding the July/August market weakness, as a result, the **Insider transaction model moved in BULLISH territory** (a positive indicator of the near-term outlook for equities).

▪***The OPT E/I model (Earnings and Insider Transactions) spread was +7.3%.*** The strong performance of the Earnings model, which is the most heavily weighted model in our process, was partly offset by the negative Insider model performance.

▪***Our Valuation models recorded negative spreads: Cashflow (-1.4) and QV (-11.5%).*** The relative out-performance of Cashflow vs. QV was due, in part, to the conflicting rankings of a number of outperforming Energy and Healthcare stocks.

Note: The Shenandoah investment process involves a proprietary quantitative algorithm. A company's raw model scores, along with a number of other variables, are combined to create a company specific "alpha score." The "alpha score" is used, along with other strategy specific factors, in the development of Shenandoah's portfolios. With this in mind, relative portfolio performance, positive or negative, may differ from the raw model Best vs. Worst spread performance discussed in this report.

Product Performance

Strategy	1 Month	3 Months	YTD	1Year	Since incep	AUM ($ mill)	Inception
Midcap Composite (Gross)	3.5%	-1.0%	13.4%	21.7%	16.2%	$ 286.0	*04/02/01*
Midcap Composite (Net)	3.5%	-1.1%	13.1%	21.3%	15.8%		
Russell Midcap	*3.2%*	*-0.5%*	*10.0%*	*18.5%*	*15.2%*		
Large Value (Gross)	4.0%	0.1%	8.8%	17.2%	15.8%	$ 19.1	*02/01/06*
Large Value (Net)	3.9%	0.0%	8.5%	16.8%	15.4%		
Russell 1000 Value	*3.4%*	*-0.2%*	*6.0%*	*14.5%*	*14.2%*		
130/30 (Gross)	3.4%	-2.4%	na	na	-2.7%	$ 12.4	*06/01/07*
130/30 (Net)	3.3%	-2.7%	na	na	-3.0%		
Russell 1000	3.8%	2.0%	na	na	0.0%		
					Total Firm	***$ 317.5***	

Performance Highlights:

•Mixed performance for the Shenandoah strategies during the quarter. Longer-term performance remains strong.

•Midcap strategy (gross) is +320 bps and +100 bps ahead of the Russell Midcap benchmark for the one year and since inception (annualized) periods, respectively.

•Large Value strategy (gross) is +270 bps and +160 bps ahead of the Russell 1000 Value benchmark for the one year and since inception (annualized) periods, respectively.

•The 130/30 Alpha Extension underperformed this quarter, primarily during the July/August period of market dislocation.

SHENANDOAH ASSET MANAGEMENT, LLC

Market Outlook: (09/30/07)

Overview

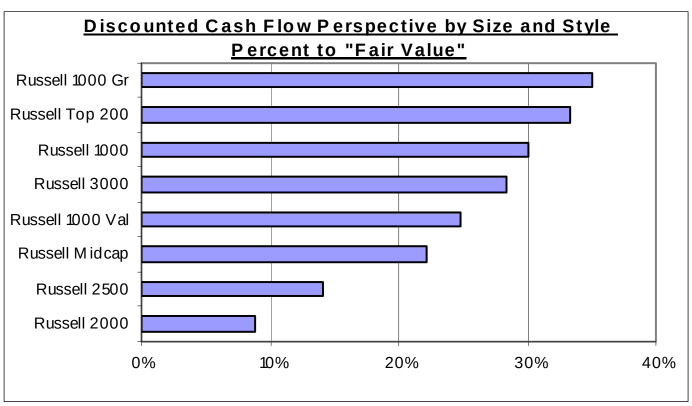
Shenandoah does not attempt to time the market in any way:

- We remain fully invested at all times;
- We neutralize sector and industry exposures versus the benchmark;
- We blend value and growth models in our stock selection models;
- Our valuation models are "relative value" models.

We do, however, maintain a forward looking view of the stock market in the context of our models. An analysis of this environmental perspective is instructive.

- **Shenandoah's Discounted Cashflow model** displays remarkable accuracy in predicting prospective stock market returns (80%+ correlation with 12 month forward market returns). Current data is decidedly bullish, with mega-caps and large cap growth stocks exhibiting the best prospects, while the outlook for small cap stocks is for moderately positive returns. Midcap still looks attractive.
- **Shenandoah's Earnings model is currently bullish.** Wall Street analysts' forecasts troughed in the fourth quarter of 2002, peaked in the second quarter of 2004 and have moderated since. Concern that the sub-prime lending debacle may trigger a significant economic slowdown and possible recession, has tempered the near-term outlook for corporate earnings growth. Current expectations are for approximately 7% growth of earnings (year over year) in 2007 with slightly more individual stock estimates falling as rising.
- **Insiders are bullish.** A sharp pick-up in Insider buying, coinciding with the pullback in equity prices that began in mid to late July, pushed the Insider transaction model to Bullish levels not seen since just prior to the mid 2003 market rally. Insiders are indicating that the actual risk to equity prices is lower than the perceived risk priced into the market. Major equity indices have rallied 5%+ since the Insider transaction model turned BULLISH in late July.
- **In summary, the current reading of our models would cause us to be optimistic regarding the near-term outlook for the equity market.**

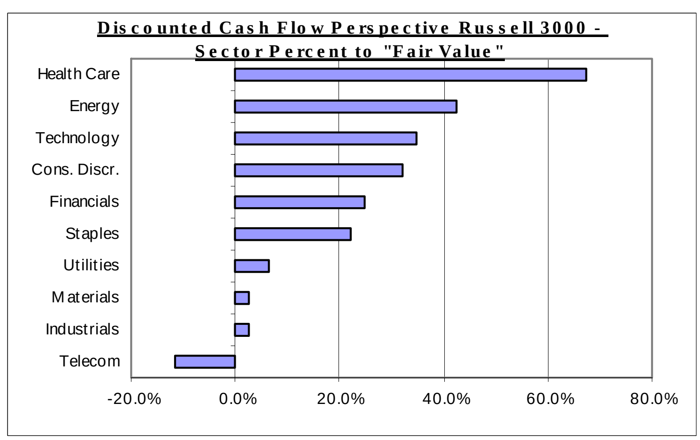
Valuation - Discounted Cashflow (DCF)



•Our DCF model (see chart) indicates that the large cap growth rally is likely to continue in the coming year or so.
•After a number of years of lagging small-cap, Mega-cap stocks (Russell 200) look significantly undervalued.
•Midcaps still look attractive.
•Small cap stocks (Russell 2000) exhibit the weakest, but still positive, upside potential; this area has had an extraordinary seven-year run and is likely to lag the Mega cap and midcap segments of the market going forward.

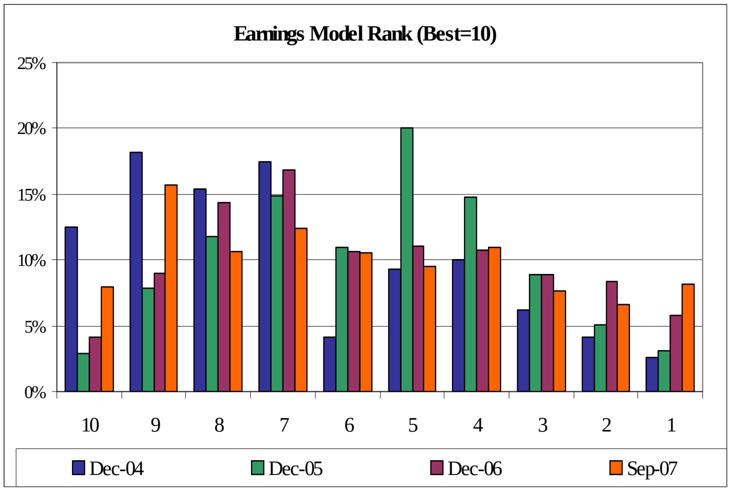
•Decomposing the Russell 3000 Index, 9/10 sectors are considered to be trading below their "fair value", albeit only slightly in the case of the Materials and Industrial sectors.
•The Healthcare, Energy, Technology and Consumer Discretionary segments appear to offer the most upside potential.
•Based on current expectations the Telecom sector is moderately overvalued.

Source: Raw Cashflow data – AFG Ltd.



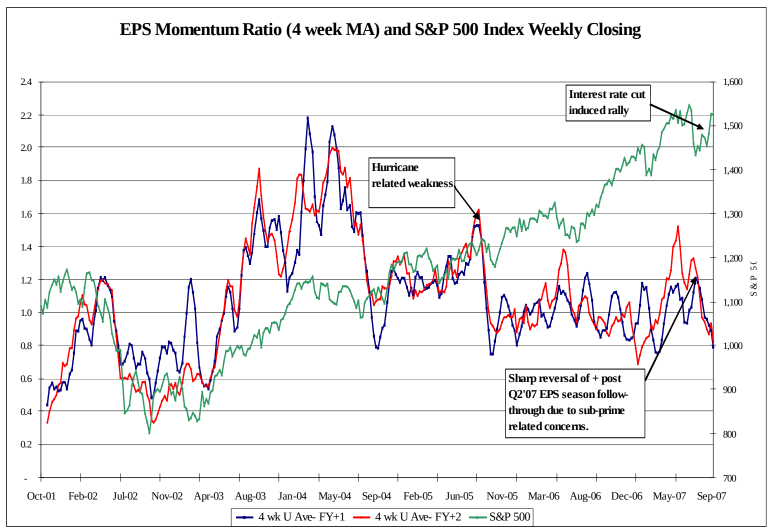
Market Outlook (continued)

Earnings



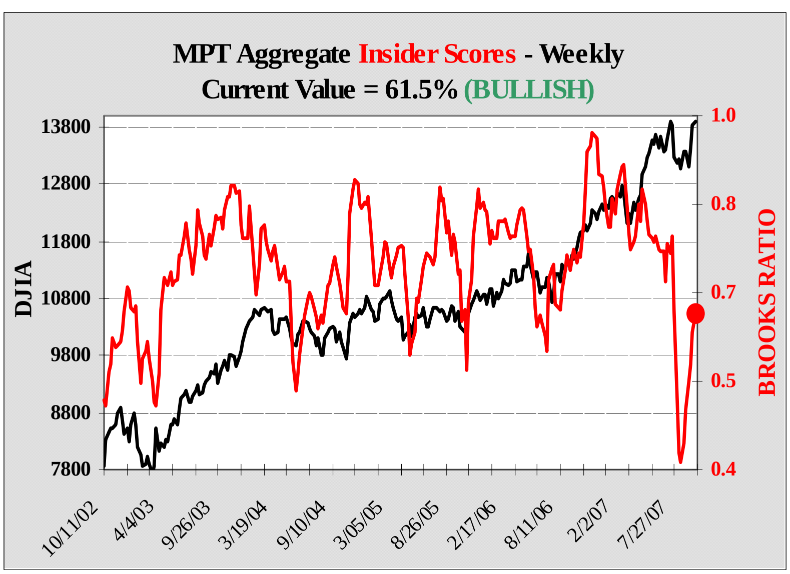
•Corporate earnings momentum rolled over during 2005 – 2006.
•Rebound in earnings momentum so far in 2007, 24% of stocks are more positive (9-10) vs. 13% and 11% in 2006 and 2005, respectively.
•The number of stocks with weakening earnings characteristics (negative surprises and estimate revisions, model scores of 1 or 2) have risen. However, deciles 1 and 2 still account for less than 15% of the universe.
•Position in the earnings cycle – it appears that expectations have been lowered to a more sustainable growth rate after the hyper-growth that followed the 2002 cyclical trough. **Our earnings outlook is Bullish.**

Earnings Revisions
The chart depicts the performance of the market (green line) in the context of analysts' estimate revisions (next fiscal year earnings ratio in blue; estimates for year after next in red). Estimate trend lines are defined as the ratio of rising estimates to falling estimates.
•Obvious cyclical trough in late 2002 to early 2003; Cyclical peak in the middle of 2004
•Hurricane-related pessimism in September, 2005;
•Moderation since October, 2005; approximately one estimate up for every estimate down.
•Post Q2'07 reporting season enthusiasm tempered by sub-prime related uncertainty.



Source: Earnings data from AFG Ltd and Zacks

Insider Transactions



•**Currently, the aggregate insider model exhibits a Brooks ratio of 61.5% (see chart); this places the ratio in the "bullish" range,** up from a "neutral" level at the end of the second quarter. (The Brooks ratio is the ratio of insider sales to purchases on NYSE listed stocks.)
•**Most aggressive insider buying since just prior to the market rally that began in mid '03.**
•The Shenandoah process highlights stocks for purchase that exhibit strong insider buying; stocks with abnormal selling by insiders (based on each stock's history) are sold from the portfolio and/or underweighted versus the benchmark.
•Strongest sectors: Finance and Consumer Discretionary.
•Weakest sectors: Defense and Technology.

Source: Market Profile Theorems, Inc.