

Shenandoah Asset Management, LLC

Quarterly Review: March 31, 2008

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q1'08	1 Yr
Russell 3000	-0.6%	-9.5%	-6.1%
Russell Top 200	-0.4%	-9.3%	-3.9%
Russell Midcap	-1.5%	-10.0%	-8.9%
Russell 2000	0.4%	-9.9%	-13.0%
Russell 3000 Growth	-0.6%	-10.4%	-1.5%
Russell 3000 Value	-0.6%	-8.6%	-10.6%
Dow Jones Industrials	0.1%	-7.0%	1.6%
NASDAQ Composite (Prc Chg)	0.3%	-14.1%	-5.9%
S&P 500 Cap-Weighted	-0.4%	-9.5%	-5.1%

	Q1'08	1 Yr
Energy	-7.0%	20.9%
Materials	-3.3%	7.1%
Industrials	-5.7%	3.1%
Consumer Discretionary	-8.2%	-21.7%
Consumer Staples	-3.2%	5.1%
Health Care	-11.4%	-8.3%
Financials	-14.0%	-29.2%
Information Technology	-15.2%	-4.5%
Telecommunications	-15.2%	-15.0%
Utilities	-10.4%	-7.3%

▪ **Different quarter, same underlying issues.** Equity markets around the world spiraled lower in the first two weeks of the New Year. The factors hanging over the equity market are well documented, i.e. record high oil prices, continued fallout from housing market weakness, the liquidity crisis affecting the global financial market's ability to function properly and deteriorating labor market conditions. The growing economic and financial crisis prompted the Federal Reserve to take some significant action during the quarter (see below). In addition to monetary policy, the Federal Government passed a number of measures including an economic stimulus package and various mortgage related adjustments to help kick-start the economy and decrease the negative impact of the housing market, respectively. By quarters-end the major equity indices had logged their worst quarterly performance in 5 years. More specifically, a number of underlying factors drove the market's performance during the quarter:

▪ **The Fed was kept busy.** The FOMC lowered the Fed Funds rate on three occasions, -75 bps, -50 bps and -75 bps, to 2.25%. The first rate cut of the quarter came intra-meeting, just one week prior to the scheduled January meeting. This move indicated the Fed's concern that economic and financial market conditions were deteriorating. Also, in an effort to add much needed liquidity to the financial markets, the Fed loosened a number of its lending requirements. However, likely the most drastic step taken by the Fed was its role in brokering a deal for the sale of the liquidity strapped Bear Stearns to JP Morgan. While acknowledging that the risk of inflation remains, the Fed is betting that slowing economic growth will cause inflation to moderate in the coming quarters. For now growth is the primary focus. With this in mind, the Fed is likely to continue to err on the side of too much stimulus and lower the Funds rate at least one more time during this cycle.

▪ **No real winners this quarter, however; Value beat Growth across all cap ranges.** For the quarter, the Russell 3000 Value index out-performed Growth, -8.6% vs. -10.4%, Mid-cap Value out-performed Mid-cap Growth -8.6% vs. -11.0%, and Small-cap Value out-performed Growth -6.5% vs. -12.8%. Relative weighting of the under-performing Healthcare sector was an important driver of style performance. Excluding the Technology and Financial sectors, which both under-performed this quarter, Healthcare is the most significant sector weighting difference between the style indices. The Growth benchmark has a relative over weighting in this sector vs. its weight in the Value indices. **Note:** Value was also the dominant style for the S&P indices.

▪ **No place to hide, very little differentiation in the performance of Large-cap vs. Small-cap equities.** Large-cap equities outperformed Small-cap, just. The Russell 200 (large) out-performed the Russell 2000 (small) by +60 bps (-9.3% vs. -9.9%) and now leads for the 1 through 4 year periods. The Russell 2000 index still leads the Russell 200 index over the 5 and 10-year time periods. **Note:** The S&P 600 (small) out-performed the S&P 500 (large) by +200 bps for the quarter.

▪ **"Defensive" and commodity related sectors continue to outperform Financials and economically sensitive sectors.** The Consumer Staples sector, down -3.2%, benefited from its "defensive" characteristics during this volatile period. The Technology sector, down -15.2%, due to a downward revision of growth expectations, was the weakest sector of any significant benchmark weight. For the past 12 months, Energy up +20.9%, due to higher energy prices, was the best performing sector. Financials, down -29.2% has been unable to gain any traction.

Is the worst over for EPS growth? The current forecast is that negative quarterly year over year (y/y) EPS growth for the companies that comprise the S&P 500 index bottomed in Q4'07 (-30%). For Q1'08 (-7%), negative but improving growth in the Financial sector will be partly offset by positive growth in the Energy and Technology sectors. By Q2'08, y/y growth is forecast to be slightly positive. FY'08 EPS positive mid-teen growth expectation is driven by sharply improving 2H'08 performance in the Financial and Consumer Discretionary sectors. We continue to believe that given expectations of a slowdown in economic growth, a further reduction in '08 estimates, especially in the initial quarters, will be required. Multi-national companies should continue 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: First Quarter 2008

Quint	Opt E/I	Earnings	Insider	QV	Cashflow
5 (high)	-8.9%	-8.7%	-10.2%	-10.0%	-9.0%
4	-8.5%	-9.5%	-8.5%	-8.8%	-8.5%
3	-9.1%	-8.5%	-8.6%	-6.2%	-9.3%
2	-11.8%	-9.6%	-11.6%	-10.9%	-10.0%
1 (low)	-8.0%	-10.1%	-7.5%	-12.2%	-11.0%
Spread	-0.9%	1.4%	-2.7%	2.2%	2.0%

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

The Shenandoah models recorded mixed spread results. Our Earnings and Valuation models all recorded moderately positive spreads. However, the Insider Transactions model spread was negative. Clearly it was a tough period for equities. Even stocks ranked strongest by our models (quintile 5) recorded average losses during the period just shy of -10%. The following is an overview of factors that influenced the performance of our raw models.

▪**The Earnings model spread was +1.4%.** A primary driver of this quarter's positive spread was the relative underperformance of stocks ranked weakest by the model (quintile 1), especially in the Financial and Technology sectors.

▪**The Insider Transactions model spread was -2.7%.** Information content of the spread result is muddled by the lack of a monotonic spread pattern. **Note:** Insiders continued to aggressively buy stock of their companies during the equity market weakness. This behavior is similar to what we saw during the late July/early August market sell-off. On that occasion the major equity indices logged mid to high single digit gains prior to Insider buying activity moving back to a Neutral reading in October. The current aggregate model reading is **Bullish for equities.**

▪**The OPT E/I model (Earnings and Insider Transactions) spread was -0.9%.** The positive performance of the Earnings model, which is the most heavily weighted model in our process, was outweighed by the negative Insider model performance. The ranking of underperforming Financial and Consumer Discretionary stocks was a primary driver of the disparate Earnings and Insider spreads. Insiders have been aggressively buying these stocks in the face of deteriorating earnings expectations.

▪**Our Valuation models both recorded positive results: Cashflow +2.0% and QV +2.2%.** Not surprisingly in such a weak period for equities, stocks with the most attractive valuation characteristics held up better than their weaker counterparts.

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)	-2.6%	-9.6%	-9.6%	-6.8%	7.8%	\$ 280.4	04/02/01
Midcap Composite (Net)	-2.6%	-9.7%	-9.7%	-7.1%	7.4%		
<i>Russell Midcap</i>	<i>-1.5%</i>	<i>-10.1%</i>	<i>-10.1%</i>	<i>-8.3%</i>	<i>6.7%</i>		
Large Value (Gross)	-1.1%	-7.7%	-7.7%	-7.2%	5.1%	\$ 16.6	02/01/06
Large Value (Net)	-1.1%	-7.8%	-7.8%	-7.5%	4.7%		
<i>Russell 1000 Value</i>	<i>-0.8%</i>	<i>-8.7%</i>	<i>-8.7%</i>	<i>-10.0%</i>	<i>3.3%</i>		
130/30 (Gross)	-1.1%	-8.5%	na	na	-15.7%	\$ 10.8	06/01/07
130/30 (Net)	-1.1%	-8.8%	na	na	-16.4%		
Russell 1000	-0.7%	-9.5%	na	na	-12.4%		
					Total Firm	\$ 312.0	

Performance Highlights:

- All of the Shenandoah strategies outperformed their benchmarks during the quarter. Longer-term performance remains strong.
- Midcap strategy (gross) is +150 bps and +110 bps ahead of the Russell Midcap benchmark for the one year and since inception (annualized) periods, respectively.
- Large Value strategy (gross) is +280 bps and +180 bps ahead of the Russell 1000 Value benchmark for the one year and since inception (annualized) periods, respectively.
- The 130/30 Alpha Extension strategy outperformed this quarter, +100 bps, narrowing the since inception deficit.