Shenandoah Asset Management, LLC
Quarterly Review:
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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q1'09	1 Yr
Russell 3000	8.8%	-10.8%	-38.2%
Russell Top 200	8.6%	-11.0%	-37.3%
Russell Midcap	9.2%	-9.0%	-40.8%
Russell 2000	8.9%	-15.0%	-37.5%
Russell 3000 Growth	8.9%	-4.5%	-34.4%
Russell 3000 Value	8.6%	-17.0%	-42.1%
Dow Jones Industrials	7.9%	-12.5%	-36.0%
NASDAQ Composite (Prc Chg)	10.9%	-3.1%	-32.9%
S&P 500 Cap-Weighted	8.8%	-11.0%	-38.1%

	Q1'09	1 Yr
Information Technology	3.9%	-30.4%
Materials	-2.0%	-47.8%
Consumer Discretionary	-6.0%	-37.2%
Telecommunications	-6.1%	-28.6%
Health Care	-7.3%	-21.0%
Consumer Staples	-10.4%	-24.7%
Energy	-10.9%	-40.6%
Utilities	-11.3%	-32.7%
Industrials	-20.4%	-51.2%
Financials	-27.4%	-61.1%

It was another volatile quarter for equities! Any hope that the strong year-end 2008 equity market performance would continue into the New Year was quickly dashed. Although equities began the year strongly, up 2%+ on the first trading day, the early enthusiasm quickly faded. Subsequent market rallies during January/February were short lived and overwhelmed by a longer period of negative performance. However, beginning in early March equity markets turned sharply higher. Signs of stabilization in the financial and economic crises along with relatively attractive valuations were key drivers. By March month-end most of the major indices had logged their best monthly performance in 6 to 7 years. Although significant, the positive results recorded in March were more than offset by weakness earlier in the quarter. More specifically, a number of underlying factors drove the market's performance during the quarter:

- ***The Fed reached further into its "box of tricks" in an effort to prove that it is more than a one trick pony.*** With the Fed Funds rate essentially at 0%, the Fed focused its attention on expanding its balance sheet in an effort to prime the financial and economic pumps. Following its March meeting the Fed announced that it would increase the size of its balance sheet by over $1 trillion through the purchase of certain mortgage backed securities and longer-term Treasury securities. The purpose of these additional purchases was to provide "greater support to the mortgage lending and housing markets." The market response was swift, equities rallied, especially Financials, and longer-term interest rates fell. For now, the Fed is clearly more focused on promoting growth than fighting inflation, which for now remains relatively tame. No prize for guessing that the next Fed Funds rate move will be up, although it is unlikely that this will occur any time soon. That said, the previous Fed Chairman has been criticized for leaving the liquidity tap on for too long, i.e. historically low interest rates. Therefore, when the time does come, the current Chairman may err on the side of raising rates more aggressively than his predecessor.
- ***Growth trounced Value.*** For the quarter, the Russell 200 Growth index out-performed Value, -4.4% vs. —17.5%, Mid-cap Growth out-performed Mid-cap Value –3.4% vs. –14.7%, and Small-cap Growth out-performed Value -9.4% vs. –19.6%. The significant performance disparity between the Technology and Financial sectors, more heavily weighted in the Growth and Value indices respectively, was an important driver of this quarter's style indices results. ***Note:*** For the S&P indices, Growth outperformed Value in across all capitalization categories.
- ***Large-cap beat small-cap, however; Mid-cap beat everyone.*** The Russell 200 (large) out-performed the Russell 2000 (small) by +400 bps (-11.0% vs. –15.0%). However, mid-cap was the best performer –9.0%, beating large-cap and small-cap by +200 bps and + 600 bps, respectively. This result is inline with our longer-term studies that show Mid-cap outperforming (absolute and risk adjusted) large-cap and small-cap. ***Note:*** The S&P 500 (large) out-performed the S&P 600 (small) by +580 bps.
- ***Intra-quarter sector and industry rotation resulted in mixed returns.*** Technology, up +3.9%, driven by some better than expected (BTE) EPS results and hope that the sector will be an early beneficiary of an economic recovery. Although improving considerably in March, Financials, down –27.4%, continue to lag the broader market. For the past 12 months, the more defensive Healthcare sector has held up relatively well, while the Financial sector has been the laggard.
- ***EPS outlook – will weaker than expected Q1'09 EPS results derail the market rally?*** Our pessimism regarding the EPS outlook heading into the Q4'08 reporting season appears to have been warranted. Consensus expectations for slightly positive year/year (y/y) growth for S&P 500 Q4'08 earnings proved far too optimistic. Heading into Q1'09, expectations are less optimistic with S&P 500 earnings expected to drop –25% (y/y). Given that the Financial sector was the first to show signs of earnings weakness, it is not too surprising that almost 18 months and a considerable amount of losses later, this sector is expected to show the most improvement, albeit off a negative base. All other sectors (ex a modest y/y gain in Healthcare) are expected to record y/y earnings declines. That said, the market appears more focused on the y/y earnings growth improvement expected to begin in 2H'09. With that in mind, investors may be more willing to give companies a "free pass" on near-term earnings as long as the outlook continues to show signs of improvement. Therefore, the tone of company earnings releases along with economic reports will be closely watched.

Model Attribution: *First Quarter 2009*

Quint	Opt E/I	Earnings	Insider	QV	Cash Flow
5 (high)	-7.6%	-6.5%	-8.9%	-9.2%	-5.4%
4	-8.0%	-5.2%	-10.8%	-12.6%	-9.4%
3	-7.9%	-9.7%	-9.0%	-11.3%	-11.7%
2	-10.6%	-11.5%	-6.5%	-7.7%	-7.3%
1 (low)	-10.1%	-11.3%	-8.9%	-0.6%	-4.5%
Spread	***2.5%***	***4.8%***	***0.0%***	***-8.5%***	***-0.9%***

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 results. Earnings was the only standalone model that exhibited a monotonic spread pattern this quarter. Lumpy spread patterns for the other standalone models are indicative of non-model factors, i.e. macro level and sector/industry rotation being key drivers of stock performance during this period.

- ***The Earnings model spread was +4.8%.*** On average, stocks ranked worst (quintile 1) by the earnings model significantly underperformed their stronger brethren, especially during the January/February market sell-off. However, model spread was negative in March i.e. companies with the weakest earnings characteristics (quintile 1) outperformed stocks with the strongest earnings characteristics (quintile 5), driven in part by speculation that these companies were more leveraged to a turnaround.
- ***The Insider Transactions model spread was 0.0%.*** Insiders proved prescient moving to the sidelines following the November/December 2008 market rally and then returning to a more bullish stance following the January/February sell-off. **Note:** It is not surprising to see a pick-up in insider buying following a period of equity market weakness. However, what is **particularly bullish** about recent insider activity is their lack of selling as equities roared higher in price.
- ***The OPT E/I model (Earnings and Insider Transactions) spread was +2.5%.*** When combined the positive performance of the Earnings model, which is the most heavily weighted model in our process, was partly offset by the flat Insider model performance**.**
- ***Our Valuation models both recorded negative results: Cash flow –0.9% and QV –8.5%.*** It has been a tough period for our valuation models recently. The "upside down" spread pattern of both models indicates that stocks with the least attractive valuation characteristics (quintile 1) outperformed stocks with the strongest valuation characteristics (quintile 5). This result was likely driven, at least in part, by factors outside of relative valuation, i.e., sector and/or industry concentrations, capitalization and style factors.

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.

Strategy	1 Month	3 Months	YTD	1Year	Since incep	AUM ($ mill)	Inception
Midcap Composite (Gross)	6.9%	-12.0%	-12.0%	-40.6%	-8.1%	$ 164.8	*07/01/05*
Midcap Composite (Net)	6.9%	-12.1%	-12.1%	-40.8%	-8.4%		
Russell Midcap	*9.2%*	*-9.0%*	*-9.0%*	*-40.8%*	*-9.0%*		
Large Value (Gross)	6.5%	-17.4%	-17.4%	-40.5%	-12.2%	$ 9.8	*02/01/06*
Large Value (Net)	6.5%	-17.5%	-17.5%	-40.7%	-12.5%		
Russell 1000 Value	*8.6%*	*-16.8%*	*-16.8%*	*-42.4%*	*-14.1%*		
					Total Firm	***$ 177.3***	

Performance Highlights:

•While the Shenandoah strategies underperformed in the 1st quarter, our longer-term relative results remain positive. Also, strategy information ratios remain at the high end of their peer group.

•Midcap strategy (gross) is +20 bps ahead of the Russell Midcap benchmark for the one year and +90 bps ahead since inception (annualized) periods.

•Large Value strategy (gross) is +180 bps ahead of the Russell 1000 Value benchmark for the one year and +180 bps since inception (annualized) periods.