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

Source: Vestek & Frank Russell

Index	Month	Q1'10	1 Yr
Russell 3000	6.3%	5.9%	52.4%
Russell Top 200	5.8%	4.6%	45.9%
Russell Midcap	7.1%	8.7%	67.7%
Russell 2000	8.1%	8.9%	62.8%
Russell 3000 Growth	6.0%	4.9%	50.5%
Russell 3000 Value	6.7%	7.1%	54.5%
Dow Jones Industrials	5.3%	4.8%	46.9%
NASDAQ Composite (Prc Chg)	7.1%	5.7%	56.9%
S&P 500 Cap-Weighted	6.0%	5.4%	49.8%

	Q1'10	1 Yr
Industrials	11.8%	70.7%
Consumer Discretionary	11.0%	70.7%
Financials	10.9%	76.8%
Consumer Staples	5.2%	33.4%
Health Care	4.0%	34.2%
Materials	3.7%	59.2%
Information Technology	1.8%	57.8%
Energy	0.3%	30.5%
Utilities	-4.0%	19.5%
Telecommunications	-4.7%	12.4%

After a uncertain start, equities posted another strong quarter! The equity market vacillated through several periods of optimism and pessimism during January and February. The positive impact of better than expected Q4'09 EPS reports was partly offset by a number of negative macro economic factors including: weaker than expected employment and housing reports along with a sharp drop in consumer confidence. However, by March the mood had turned bullish. In general, reports released during the month supported the view that the economic recovery was continuing, albeit it at a below average pace. Importantly, expectations for a "double dip" recession abated. Against this more optimistic backdrop the general direction of equities was higher. More specifically, a number of underlying factors drove the market's performance during the quarter:

- ***The Fed remained on hold, continues to indicate that interest rates will remain low for an extended period.*** The FOMC acknowledged the continued, albeit marginal, improvement in economic conditions in its March statement. With that in mind the Fed confirmed that the MBS purchase program, that has been used to keep mortgage rates low, was ending March 31st. The lone dissenter at both the January and March FOMC meetings, Kansas City President Thomas Hoenig, believes that the Fed's language regarding the need to keep the funds rate at an exceptionally low level for an extended period of time could "increase risks to longer-run macroeconomic and financial stability." That said, for now based on its recent actions (or inaction) and statements, the FOMC (at least the majority of its members) appear more likely to err on the side of allowing the economy to overheat than risk it dipping back into negative growth.
- ***Value beats Growth—driven by the relative strength of the Financial sector.*** For the quarter, the Russell 200 Value index out-performed Growth, +5.6% vs. +3.5%, Mid-cap Value out-performed Mid-cap Growth +9.6% vs. +7.7%, and Small-cap Value out-performed Growth +10.0% vs. +7.6%. The relatively strong performance of the Financial sector vs. the Technology sector, more heavily weighted in the Value and Growth indices respectively, was an important driver of this quarter's style indices results. ***Note:*** For the S&P indices, Value outperformed Growth in all but mid-cap.
- ***Small and Mid-cap indices outperformed Large-cap this quarter extending their dominance over the past 12 months!*** The Russell 2000 (small) out-performed the Russell 200 (large) by +430 bps (+8.9% vs. +4.6%). The mid-cap index performance (+8.7%) was inline with the small-cap index. Our longer-term studies show mid-cap outperforming (absolute and risk adjusted) large-cap and small-cap. ***Note:*** The S&P 600 (small) out-performed the S&P 500 (large) by +320 bps.
- ***Economically sensitive sectors led the market higher.*** The Industrial and Consumer Discretionary sectors, up +11.8% and +11.0%, respectively; strong performance in most underlying industries supported by a more optimistic economic outlook. Telecommunications, down –4.7% and Utilities, down –4.0% were the laggards. A lack of growth potential and a forgettable Q4'09 EPS reporting season were two factors working against higher prices in these sectors. For the past 12 months, the Financial sector (+76.8%) has been the best performer. Defensive sectors such as Telecommunications (+12.4%) and Utilities (+19.4%) have been unable to match the rapid advance in other sectors of the market.

***Equity Market Outlook*— Shenandoah does not attempt to time the market in any way**. We do, however, maintain a forward looking view of the stock market in the context of our models. The outlook of our Discounted Cash Flow (DCF) and Earnings models remains bullish. Generally better than expected Q4'09 EPS reports and improving corporate profitability (up from an historically low level) are two factors underlying the positive DCF and Earnings model views. One caveat, the favorable DCF outlook is based on forward EPS estimates (+40% year/year growth is the current consensus estimate for the companies that comprise the S&P 500 index), which may be unachievable. **Insider's have stepped up the selling (relative to buying) of stock in their own companies during recent equity market rally.** We believe, this represents normal short-term behavior on the part of insiders. However, on an intermediate/ longer term basis, the current Insider model reading is in the Bearish range, increasing the possibility of a correction in equity prices. In summary, while the view of our Earnings and DCF models remain positive, the recent shift in the outlook of insiders from neutral to bearish has caused us to temper our enthusiasm regarding the near-term equity market outlook.

Model Attribution: *First Quarter 2010*

Quint	Opt E/I	Earnings	Insider	QE	Cash Flow
5 (high)	11.2%	9.0%	12.5%	9.8%	7.0%
4	8.9%	7.8%	10.3%	7.6%	9.1%
3	8.0%	8.4%	7.7%	10.4%	8.3%
2	6.8%	7.3%	6.7%	7.0%	8.6%
1 (low)	9.5%	11.9%	7.2%	10.7%	11.6%
Spread	***1.7%***	***-2.9%***	***5.3%***	***-0.9%***	***-4.5%***

Note: "Spread" is the difference between the returns of the high (5) and low (1) quintiles by each model/measure. QE is a combination quantitative model that adds growth, profitability and capital use factors to the quantitative value (QV) model

The Shenandoah models recorded mixed results. The considerable outperformance of companies (concentrated in the Consumer Discretionary and Financial sectors) ranked Worst (quintile 1) by the Earnings, QE and Cash flow models was a key driver of the negative spread performance. Excluding these companies the Earnings and QE model spreads were positive, and the negative Cash flow model spread was reduced significantly.

- ***The Earnings model spread was –2.9%.*** Our Earnings model continues to do an outstanding job of identifying companies most likely to report a quarterly earnings surprise. For the Q4'09 EPS reporting season, approximately 80% of companies ranked Best (quintile 5) reported a positive EPS surprise vs. 64% of companies ranked Worst (quintile 1). Unfortunately, this did not translate to strong performance for the model due to the incredibly strong performance of the stocks with the worst earnings scores (Quintile 1), most likely caused by short-covering and rotation into the most economically sensitive stocks.
- ***The Insider Transactions model spread was +5.3%.*** Unlike the other "core" models, the Insider model spread benefited from the outperformance of companies ranked Best (quintile 5). Currently, the insider model reading has moved into the **Bearish range** on an **intermediate/longer-term basis** increasing the possibility of an equity market correction vs. the more optimistic outlook of the Earnings and Cash flow models.
- ***The OPT E/I model (Earnings and Insider Transactions) spread was +1.7%.*** When combined, the negative performance of the Earnings model undercut the positive Insider model performance**.**
- ***QE model spread—(-0.9%).*** The "lumpy" inter-quintile spread pattern was due, in part, to the concentration of companies in relatively outperforming/underperforming sectors and industries with the universe along with a number of "style" (Growth vs. Value) shifts that impacted performance during the quarter.
- ***Valuation model spread - Cash flow (-4.5%).*** The negative model spread was driven by the relative outperformance of Financial and Consumer Discretionary stocks ranked Worst (quintile 1) by the model.

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	3Year	Since incep	AUM ($ mill)	Inception
Midcap Composite (Gross)	6.1%	8.5%	8.5%	68.3%	-2.4%	4.4%	$ 275.0	*07/01/05*
Midcap Composite (Net)	6.1%	8.4%	8.4%	67.8%	-2.7%	4.1%		
Russell Midcap	*7.1%*	*8.7%*	*8.7%*	*67.7%*	*-3.3%*	*3.5%*		
Large Value (Gross)	6.8%	8.1%	8.1%	57.4%	-4.6%	1.0%	$ 11.8	*02/01/06*
Large Value (Net)	6.7%	8.0%	8.0%	56.8%	-4.9%	0.7%		
Russell 1000 Value	*6.5%*	*6.8%*	*6.8%*	*53.6%*	*-7.3%*	*-1.3%*		
						Total Firm	***$ 291.2***	

Performance Highlights:

- The Shenandoah Midcap and Large Value strategies reported results that were slightly below and well above their respective benchmarks for the quarter. After a strong start, the Midcap strategy underperformed its benchmark in March. The performance of the Large Value strategy was positive throughout the quarter.
- Midcap strategy (gross) performance is +60 bps and +90 bps ahead of the Russell Midcap benchmark for the one year and since inception (annualized) periods, respectively.
- Large Value strategy (gross) is +380 bps and +230 bps ahead of the Russell 1000 Value benchmark for the one year and since inception (annualized) periods, respectively.