

Shenandoah Asset Management, LLC

Quarterly Review: June 30, 2008

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Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q2'08	1 Yr
Russell 3000	-8.3%	-1.7%	-12.7%
Russell Top 200	-8.4%	-3.7%	-12.8%
Russell Midcap	-8.0%	2.7%	-11.2%
Russell 2000	-7.7%	0.6%	-16.2%
Russell 3000 Growth	-7.1%	1.5%	-6.4%
Russell 3000 Value	-9.6%	-5.2%	-19.0%
Dow Jones Industrials	-10.0%	-6.9%	-13.3%
NASDAQ Composite (Prc Chg)	-9.1%	0.6%	-11.9%
S&P 500 Cap-Weighted	-8.4%	-2.7%	-13.1%

	Q2'08	1 Yr
Energy	18.7%	24.9%
Utilities	7.2%	2.4%
Materials	5.3%	3.9%
Information Technology	3.0%	-10.3%
Health Care	-1.5%	-11.9%
Telecommunications	-3.5%	-23.6%
Consumer Staples	-5.9%	-3.1%
Consumer Discretionary	-8.3%	-30.7%
Industrials	-8.3%	-14.9%
Financials	-17.5%	-41.3%

▪ **It was the best of times and it was the worst of times.** Buoyed, by a lack of disastrous Q1 EPS results (ex Financials and Consumer Discretionary) and a belief that the exceptional action taken by the Federal Reserve in late March to avert the bankruptcy of Bear Stearns signaled the end of the Financial market crisis, equities rallied in April and May. However, the mood turned sharply negative in June. The change in sentiment was attributed to a number of factors including: continued trouble in the Financial sector; the impact of the relentless rise of commodity prices on growth and inflation expectations; and concern that the earnings malaise, so far isolated to a few sectors such as Financials, was set to spread to other sectors. By quarter's end many of the major equity indices hovered at or near levels -20% ("bear" market) below their October 2007 highs. More specifically, a number of underlying factors drove the market's performance during the quarter:

▪ **Uncertainty regarding the outlook for growth and inflation caused the Fed to move to the sidelines, for now.** After a busy Q1, the FOMC met only twice during Q2. At its April meeting the Fed lowered the Funds rate a further -25 bps (the 7th cut since September '07) to 2.00% and set the tone for no rate cut when it met in June. While the level of uncertainty was no less diminished, the Fed appeared to be more confident that the downside risks to growth were decreasing. The Fed did leave interest rates unchanged at its June meeting. The tone of the June statement continued to be more upbeat regarding the outlook for growth. However, the statement noted that the upside risks to inflation and inflation expectations had increased. Against this backdrop the consensus is that the next move by Fed will be to raise interest rates. However, continued sluggish economic activity would likely force the Fed to stay on hold at its two upcoming meetings (August and September).

▪ **Growth outperformed Value across all cap ranges.** For the quarter, the Russell 2000 Growth index out-performed Value, -0.3% vs. -7.1%, Mid-cap Growth out-performed Mid-cap Value +4.7 vs. +0.1%, and Small-cap Growth out-performed Value +4.5% vs. -3.6%. The relative weighting of the under-performing Financial sector, which is heavily over-weighted in the Value indices vs. its weight in the Growth indices continues to be a primary driver of style index performance differences. **Note:** Growth was also the dominant style for the S&P indices.

▪ **Small-cap equities outperformed Large-cap, Mid-cap outperformed both.** The relative underperformance of Large-cap Financial and Energy stocks vs. their smaller counterparts was a key driver of Large-caps lagging performance this quarter. The Russell 2000 (small) out-performed the Russell 200 (Large) by +430 bps (+0.6% vs. -3.7%). Even with this quarter's significant out-performance the Russell 2000 index still lags the Russell 200 over the most recent 3 year period. **Note:** The S&P 600 (small) out-performed the S&P 500 (large) by +310 bps for the quarter.

▪ **Financial sector performance remained moribund while the Energy sector soared.** Driven by record high oil and coal prices, the Energy sector, +18.7%, was by far the best performing sector this quarter. The Financial sector, down -17.5%, continues to struggle with the fallout of the credit crisis. For the past 12 months, Energy up +24.9%, due to higher energy related commodity prices, was the best performing sector. Financials, down -41.3% has been unable to gain any traction.

EPS growth expectations – are we there yet? As we expected, analysts continued to ratchet down their EPS growth forecasts for 2008 (mid-single digits now expected for SP500 vs. mid-teens earlier in the year). Q2'08 year/year (y/y) growth is forecast register its fourth consecutive quarter of negative growth. A primary driver of the earnings growth underperformance has been the significant weakness in the Financial sector and to lesser extent the Consumer Discretionary sector. Current forecasts have positive y/y growth returning to both sectors beginning in Q3'08, recently pushed back from Q2'08. So far, growth in other sectors such as Energy, Technology and Consumer Staples, which has an above average exposure to non-US growth, have helped to offset the negative impact of the Financial and Consumer malaise. Going forward, forecasts assume that these sectors, while cooling somewhat, will continue to provide a solid base upon which the improvement in the Financial and Consumer Discretionary sectors will build. We continue to believe that, given the uncertainties surrounding the outlook for financial and economic markets around the world, analysts may be required to lower estimates further. The second half 2008 rebound in earnings growth now appears more likely to surface in early 2009.

Model Attribution: Second Quarter 2008

Quint	Opt E/I	Earnings	Insider	QV	Cashflow
5 (high)	-1.7%	5.7%	-6.1%	-6.1%	4.6%
4	2.2%	1.1%	-4.8%	-4.8%	2.3%
3	2.4%	2.1%	-2.4%	-3.6%	-3.6%
2	-3.4%	-3.6%	0.4%	0.6%	-5.4%
1 (low)	-9.0%	-14.5%	3.3%	7.5%	-5.2%
Spread	7.3%	20.2%	-9.5%	-13.7%	9.8%

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

The Shenandoah models recorded significant but mixed results. In Q1'08 we saw unusually narrow quintile spreads due to the broad market sell-off. However, this quarter spreads widened significantly due in part to more diverse sector performance, i.e. Energy (positive) and Financials (negative). Sector concentrations within models also impacted the raw model spread results. The following is an overview of factors that influenced the performance of our raw models.

▪**The Earnings model spread was +20.2%.** As we have seen for some time, earnings momentum continued to be an important performance differentiator. Helping to compound this quarter's positive spread was the relative under-performance of stocks ranked weakest by the model (quintile 1), especially in the Financial and Consumer Discretionary sectors.

▪**The Insider Transactions model spread was -9.5%.** Insiders continue to be aggressive buyers of out of favor sectors, i.e. Financials and Consumer Discretionary. So far, the performance of these sectors remains moribund. **Note:** Since the market volatility began in July/August of 2007, insiders have used periods of market weakness to step up their buying. Having moved to a more neutral level during the April/May market rally, insiders stepped in and began aggressively buying their shares when the equity market moved sharply lower in June. We believe that this is BULLISH indicator for equities.

▪**The OPT E/I model (Earnings and Insider Transactions) spread was +7.3%.** The positive 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 disparate results: Cashflow +9.8% and QV -13.7%.** The models' differing opinion on the relative attractiveness of sectors such as Energy, Healthcare, Financials and Consumer Discretionary was an important factor in the significant performance difference in the raw model spreads of our valuation models.

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)	-5.9%	4.7%	-5.4%	-9.2%	8.8%	\$ 293.0	07/01/05
Midcap Composite (Net)	-6.0%	4.6%	-5.6%	-9.5%	8.4%		
<i>Russell Midcap</i>	-8.0%	2.7%	-7.6%	-11.2%	6.8%		
Large Value (Gross)	-8.0%	-2.7%	-10.3%	-15.1%	3.4%	\$ 16.1	02/01/06
Large Value (Net)	-8.0%	-2.8%	-10.4%	-15.4%	3.0%		
<i>Russell 1000 Value</i>	-9.6%	-5.3%	-13.6%	-18.8%	0.6%		
130/30 (Gross)	-7.5%	1.2%	-7.4%	-14.5%	-13.6%	\$ 10.9	06/01/07
130/30 (Net)	-7.6%	1.0%	-7.9%	-15.3%	-14.5%		
Russell 1000	-8.3%	-1.9%	-11.2%	-12.4%	-13.0%		
					Total Firm	\$ 324.5	

Performance Highlights:

- All of the Shenandoah strategies outperformed their benchmarks during the quarter. Longer-term performance remains strong.
- Midcap strategy (gross) is +200 bps ahead of the Russell Midcap benchmark for the one year and since inception (annualized) periods.
- Large Value strategy (gross) is +370 bps ahead of the Russell 1000 Value benchmark for the one year and +280 bps since inception (annualized) periods.
- The 130/30 Alpha Extension strategy outperformed this quarter, +310 bps, narrowing the since inception deficit.