Shenandoah Asset Management, LLC
Quarterly Review:
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121 Shockoe Slip
Richmond, VA 23219
(804) 343-1400
cmclennan@samllc.com

Market Data & Commentary:

Source: Vestek & Frank Russell

Index	Month	Q3'09	1 Yr
Russell 3000	4.2%	16.3%	-6.4%
Russell Top 200	3.5%	14.4%	-7.1%
Russell Midcap	5.7%	20.6%	-3.6%
Russell 2000	5.8%	19.3%	-9.6%
Russell 3000 Growth	4.4%	14.1%	-2.2%
Russell 3000 Value	4.0%	18.6%	-10.8%
Dow Jones Industrials	2.4%	15.8%	-7.4%
NASDAQ Composite (Prc Chg)	5.6%	15.7%	1.5%
S&P 500 Cap-Weighted	3.7%	15.6%	-6.9%

	Q3'09	1 Yr
Financials	24.4%	-23.4%
Materials	21.5%	-5.3%
Industrials	21.1%	-12.7%
Consumer Discretionary	20.1%	0.7%
Information Technology	16.8%	8.1%
Energy	10.7%	-15.1%
Consumer Staples	10.6%	-5.8%
Health Care	9.2%	-4.3%
Utilities	5.4%	-7.8%
Telecommunications	5.0%	-3.6%

Wow, equities log another great quarter! Similar factors that drove the strong Q2 equity market performance carried over into Q3, namely; better than expected earnings and economic results and the continuation of the historically high levels of monetary and fiscal stimulus. Added to this was a healthy dose of speculative fervor manifest in the considerable outperformance of low priced stocks, with below average fundamental characteristics in previously out of favor sectors such as Financials and Consumer Discretionary. While there were some short periods of weakness throughout the quarter, more often caused by the release of below expectations economic data, the general trajectory of the market was up. More specifically, a number of underlying factors drove the market's performance during the quarter:

- ***Given signs of an improving economy, focus has turned to when and how quickly the Fed should begin removing the stimulus "punch bowl."*** The recent evidence suggests that the economy has begun to recover following the worst recession since the Great Depression. While still too early to signal the "all clear" the statement that followed the FOMC's late September meeting was considerably more upbeat than it was. a little over a month prior, following it's mid-August meeting. With the recession behind us the focus now turns to how the Fed will manage the delicate process of removing the historic level of stimulus from the economy without resulting in negative growth. It has been argued that the Fed kept interest rates too low for too long following the previous recession, contributing to the most recent financial crisis. With little sign of inflation on the horizon and economic growth expected to be less than robust, the FOMC is unlikely to begin raising interest rates in the near-term. Based on the recent announcement that it will slow the pace of it's MBS purchases, the Fed approach to the task ahead appears to be one of forewarned is forearmed.
- ***Value beats Growth due in part to another quarter of significant Financial sector outperformance.*** For the quarter, the Russell 200 Value index out-performed Growth, +16.2% vs. +12.7%, Mid-cap Value out-performed Mid-cap Growth +23.6% vs. +17.6%, and Small-cap Value out-performed Growth +22.7% vs. +16.0%. The relatively strong performance of the Financials 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 across all capitalization categories.
- ***Large-cap lags again!*** The Russell 2000 (small) out-performed the Russell 200 (large) by +490 bps (+19.3% vs. +14.4%). However, mid-cap was the best performing capitalization segment +20.6%. 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 600 (small) out-performed the S&P 500 (large) by +310 bps.
- ***Financials and cyclical stocks continued to outperform the more defensive sectors of the market.*** Financials, up +24.4%, the operating environment for the sector has improved considerably vs. 12 months ago. Short-term speculation compounded any longer-term improvement in fundamentals. Defensive sectors such as Telecom, up +5.0%, Utilities, up +5.4% and Healthcare, up +9.2% logged more modest gains. For the past 12 months, the Technology sector has been the best performer. Even with its +50% gain in the past two quarters, the Financial sector performance is still the laggard over the past year.
- ***EPS outlook – with expectations for considerable year/year improvement already factored into Q3 expectations, will companies be able to deliver?*** It is no secret that earnings momentum has improved significantly from earlier in the year**.** However, at the index level, the improvement has manifested as a slowdown in the rate of deterioration, not as an improvement in earnings expectations for the remainder of '09 and full year 2010. Getting less worse is different than getting better! Mudding the waters, at least for the next quarter or so, is the earnings cycle difference between sectors, i.e. the Financial and Consumer Discretionary sectors are expected to report considerably better results than the Energy, Materials and Industrial sectors, which had not felt the full brunt of the economic malaise 12 months ago. Given the lack of a considerable deterioration in momentum prior to the upcoming quarterly reporting period, it is assumed that analysts and companies are comfortable they can meet or more likely beat current expectations. Given where we are in the economic recovery, it is likely that investors will continue to focus more on future growth prospects than the most recent quarter's results. That said, signs of incremental improvement and more importantly top-line growth will be key if the equity market is to continue its upward momentum.

Model Attribution: *Third Quarter 2009*

Quint	Opt E/I	Earnings	Insider	QV	Cashflow
5 (high)	23.1%	21.7%	27.9%	25.3%	21.2%
4	19.8%	17.4%	26.9%	20.6%	18.7%
3	18.9%	18.4%	22.6%	25.6%	18.0%
2	26.9%	25.1%	17.8%	17.3%	19.4%
1 (low)	25.0%	31.4%	18.7%	24.0%	31.4%
Spread	***-1.9%***	***-9.7%***	***9.2%***	***1.4%***	***-10.1%***

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. Of the standalone models only the Insider model exhibited a monotonic spread pattern, or close to it. At times, sector concentration and performance rotation overwhelmed the model rankings. That said the 20%+ average quintile performance and narrowing of the Best/Worst model spreads from the +/-20% level recorded in Q2 is indicative of some broadening of the equity market rally in Q3.

- ***The Earnings model spread was –9.7%.*** The concentration of relative outperforming Financial, Materials and Industrial stocks in the Worst quintile (1) vs. their weighting in the Best quintile (5) was a key driver of the negative model spread.
- ***The Insider Transactions model spread was +9.2%.*** Our **Insider model moved to an outright Bearish reading in August,** up from a cautious reading at the beginning of the quarter**,** and remains there**.** The current reading is the **highest (negative) since July 2007,** when equities traded at or near their highs and prior to the financial crisis becoming fully apparent. From an insider perspective, **conditions are becoming more conducive to a sell-off in equities** as opposed to treading water.
- ***The OPT E/I model (Earnings and Insider Transactions) spread was –1.9%.*** When combined, the negative performance of the Earnings model, which is the most heavily weighted model in our process, was partly offset by the strong Insider model performance**.** The result was an OPT E/I model spread that was negative but less so than the stand alone Earnings model.
- ***Our Valuation models recorded significantly disparate results: Cash flow –10.1% and QV +1.4%.*** The primary driver of this quarter's disparate model returns was their conflicting ranking of companies in outperforming/underperforming sectors, i.e. Financials and cyclical sectors such as Consumer Discretionary and Industrials vs. the Healthcare sector. The Cash flow model ranked more of the Financials and cyclical companies Worst (quintile 1) and Healthcare companies Best (quintile 5) vs. the QV model. Ex the impact of the stocks ranked Worst, the Cash flow model spread (5 vs. 2) was slightly positive.

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)	5.7%	19.7%	29.2%	-4.5%	1.7%	$ 241.1	*07/01/05*
Midcap Composite (Net)	5.7%	19.6%	28.9%	-4.8%	1.3%		
Russell Midcap	*5.7%*	*20.6%*	*32.6%*	*-3.6%*	*0.6%*		
Large Value (Gross)	3.8%	17.4%	15.0%	-7.9%	-2.2%	$ 13.7	*02/01/06*
Large Value (Net)	3.8%	17.3%	14.7%	-8.2%	-2.5%		
Russell 1000 Value	*3.9%*	*18.2%*	*14.8%*	*-10.6%*	*-4.3%*		
					Total Firm	***$ 258.5***	

Performance Highlights:

- The Shenandoah strategies modestly underperformed their respective benchmarks for the quarter, due in part, to the significant outperformance of low priced, smaller capitalization stocks with below average fundamental characteristics. There is no restriction on the purchase of low priced companies for our strategies, however; on average, the model scores of these companies was well below that of companies held at an Overweight position in the portfolios.
- Midcap strategy (gross) performance is +110 bps ahead of the Russell Midcap benchmark since inception (annualized).
- Large Value strategy (gross) is +270 bps and +210 bps ahead of the Russell 1000 Value benchmark for the one year and since inception (annualized) periods, respectively.