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

Source: Vestek & Frank Russell

Index	Month	Q4'09	1 Yr
Russell 3000	2.9%	5.9%	28.3%
Russell Top 200	1.2%	6.1%	24.2%
Russell Midcap	5.7%	5.9%	40.5%
Russell 2000	8.1%	3.9%	27.2%
Russell 3000 Growth	3.5%	7.7%	37.0%
Russell 3000 Value	2.2%	4.2%	19.8%
Dow Jones Industrials	1.0%	8.1%	22.7%
NASDAQ Composite (Prc Chg)	5.8%	6.9%	43.9%
S&P 500 Cap-Weighted	1.9%	6.0%	26.5%

	Q4'09	1 Yr
Information Technology	10.7%	61.1%
Telecommunications	8.1%	10.8%
Health Care	7.9%	19.7%
Consumer Discretionary	7.6%	44.5%
Materials	7.6%	50.4%
Utilities	5.7%	10.4%
Energy	5.0%	15.9%
Industrials	4.9%	21.4%
Consumer Staples	4.1%	13.7%
Financials	-3.0%	15.6%

Another positive quarter for equities capped a great year! Weaker than expected employment data was a primary driver of the equity market's shaky start to the quarter. However, performance improved as we progressed further into the Q3'09 EPS reporting season. In general, corporate earnings results were better than expected (BTE). Reporting companies beat the consensus earnings estimate 70%+ of the time, well above the 60% to 65% historical average. One caveat to the upbeat earnings results, top line growth remained under pressure. Continued improvement in economic and company level fundamentals along with a healthy dose of positive momentum (Santa Claus rally combined with an early January effect) supported strong year-end performance. More specifically, a number of underlying factors drove the market's performance during the quarter:

- ***The Fed remained on hold, no increase in interest rates is expected any time soon.*** Despite continued improvement in the economy, corporate earnings and the financial markets, the Fed remains cautious regarding the future. With that in mind, the FOMC reiterated in its mid-December statement that it anticipates that economic conditions, i.e. low resource utilization rates and high unemployment, are likely to warrant an extended period of an "exceptionally" low federal funds rate. That said, the central bankers believe that the financial markets have improved enough that several emergency lending programs will be wound down in 2010. In addition, no changes have been announced to the MBS purchase program, which has been used to help keep mortgage rates low, set to end in March. The historically high levels of fiscal and monetary stimulus currently helping to prime the economic pump increase the difficulty in determining the underlying strength of the domestic (and likely other countries around the world) economy. Based on its recent actions (or inaction) and statements, the FOMC appears more likely to err on the side of allowing the economy to overheat than risk it dipping back into negative growth.
- ***Growth beats Value—driven by the relative strength of the Technology sector.*** For the quarter, the Russell 200 Growth index out-performed Value, +8.4% vs. +3.8%, Mid-cap Growth out-performed Mid-cap Value +6.7% vs. +5.2%, and Small-cap Growth out-performed Value +4.1% vs. +3.6%. The relatively strong performance of the Technology sector vs. the Financial sector, 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 across all capitalization categories.
- ***Relatively strong October performance helped Large-cap win the size war this quarter!*** The Russell 200 (large) out-performed the Russell 2000 (small) by +220 bps (+6.1% vs. +3.9%). The mid-cap index performance (+5.9%) was only slightly below large cap and well above small cap. Our longer-term studies 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 +90 bps.
- ***Technology stocks heated up as the weather turned cold.*** Technology, up +10.7%, especially strong performance in the computing and semiconductor industries. Improving economic conditions are expected to drive demand for electronic equipment upgrades. The Financial sector, down -3.0%, was pressured by a slew of equity offerings and an uncertain regulatory/operating environment going forward. For the past 12 months, the Technology sector (+61.1%) has been the best performer. Defensive sectors such as Utilities (+10.4%), Telecom (+10.6%) and Consumer Staples (+13.7%) have been the laggards.
- ***EPS outlook – let the recovery begin!*** Assuming that companies are able to meet or beat current expectations, Q4'09 will be the first quarter of positive year/year (y/y) growth for the S&P 500 index since Q2'07. It should be noted that Q4'08 represented the nadir in the current earnings cycle. Therefore, the hurdle for a number of sectors, i.e. Financials and Consumer Discretionary is particularly low. With that in mind even if EPS results, as they have been recently, are better than current expectations, it is likely too early to call the "all clear" on the outlook for corporate earnings. As noted previously, the historically high levels of fiscal and monetary stimulus "sloshing" around the economy increase the difficulty of determining its underlying strength. Current 2010 earnings expectations assume a considerable improvement (37% y/y for the S&P 500 index) from 2009 levels. Given the considerable amount of uncertainty surrounding the 2010 operating environment and the general inability of analysts (in aggregate) to accurately forecast earnings results 12 months in advance, it is likely that the actual earnings growth will differ from the current expectations. The question remains as to whether current estimates will be too high or too low. Given the relatively high expectations, the risk of lower than expected growth appears more likely.

Model Attribution: *Fourth Quarter 2009*

Quint	Opt E/I	Earnings	Insider	QV	Cash flow
5 (high)	6.5%	7.3%	5.7%	5.7%	6.9%
4	7.6%	8.0%	5.2%	6.2%	7.5%
3	6.4%	5.9%	7.3%	5.6%	6.1%
2	5.0%	5.1%	6.3%	5.8%	5.9%
1 (low)	5.1%	4.3%	6.2%	7.4%	3.9%
Spread	***1.5%***	***3.0%***	***-0.5%***	***-1.7%***	***3.1%***

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

The Shenandoah models recorded mixed results. Relatively narrow spreads were due, in part, to intra-quarter sector and industry rotation - more defensive (value) positioning in October vs. more aggressive (growth) positioning in November and especially December. That said, the Earnings and Cash flow models recorded monotonic, or close to it, intra-quintile spread patterns. There was little differentiation in the average performance of companies based on Insider Transactions or QV.

- ***The Earnings model spread was +3.0%.*** Our Earnings model continues to do an outstanding job of identifying companies most likely to report a quarterly earnings surprise. For the Q3'09 EPS reporting season, just under 90% of companies ranked Best (quintile 5) reported a positive EPS surprise vs. only 55% of companies ranked Worst (quintile 1).
- ***The Insider Transactions model spread was –0.5%.*** Our **Insider model moved to an outright Bearish reading in August** and remains there**.** The failure of insiders to step up the buying of stock in their companies during recent periods of market weakness has reinforced the model's negative view. From an insider perspective, **conditions** are **more conducive to a sell-off (-8% to –10%)** in **equities** as opposed to treading water.
- ***The OPT E/I model (Earnings and Insider Transactions) spread was +1.5%.*** When combined, the positive performance of the Earnings model, which is the most heavily weighted model in our process, was partly offset by the slightly negative Insider model performance**.** The result was a positive OPT E/I model spread, albeit less than the stand alone Earnings model.
- ***Our Valuation models recorded disparate results: Cash flow +3.1% and QV –1.7%.*** After a positive October, our valuation model spreads were upside down (negative) in November and December, stocks ranked Worst outperformed stocks ranked Best. The outperformance of Technology and Industrial stocks ranked Worst was a key driver of the negative spread performance during this period. The disparate performance of the models was due to company level relative ranking differences.

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)	5.0%	5.6%	36.5%	36.5%	2.8%	$ 254.0	*07/01/05*
Midcap Composite (Net)	5.0%	5.5%	36.0%	36.0%	2.4%		
Russell Midcap	*5.7%*	*5.9%*	*40.5%*	*40.5%*	*1.8%*		
Large Value (Gross)	1.7%	4.6%	20.2%	20.2%	-0.9%	$ 14.3	*02/01/06*
Large Value (Net)	1.7%	4.5%	19.8%	19.8%	-1.3%		
Russell 1000 Value	*1.8%*	*4.2%*	*19.7%*	*19.7%*	*-3.0%*		
					Total Firm	***$ 272.2***	

Performance Highlights:

- The Shenandoah Midcap and Large Value strategies reported results that were slightly below and above their respective benchmarks for the quarter. After a strong October, both strategies modestly lagged their benchmarks in November and December when a more speculative tone returned to the equity market.
- Midcap strategy (gross) performance is +100 bps ahead of the Russell Midcap benchmark since inception (annualized).
- Large Value strategy (gross) is +50 bps and +210 bps ahead of the Russell 1000 Value benchmark for the one year and since inception (annualized) periods, respectively.