



**SHENANDOAH
ASSET
MANAGEMENT, L.L.C.**

**Research:
Mega Cap Strategy**
April, 2008

Shenandoah Mega Cap Research

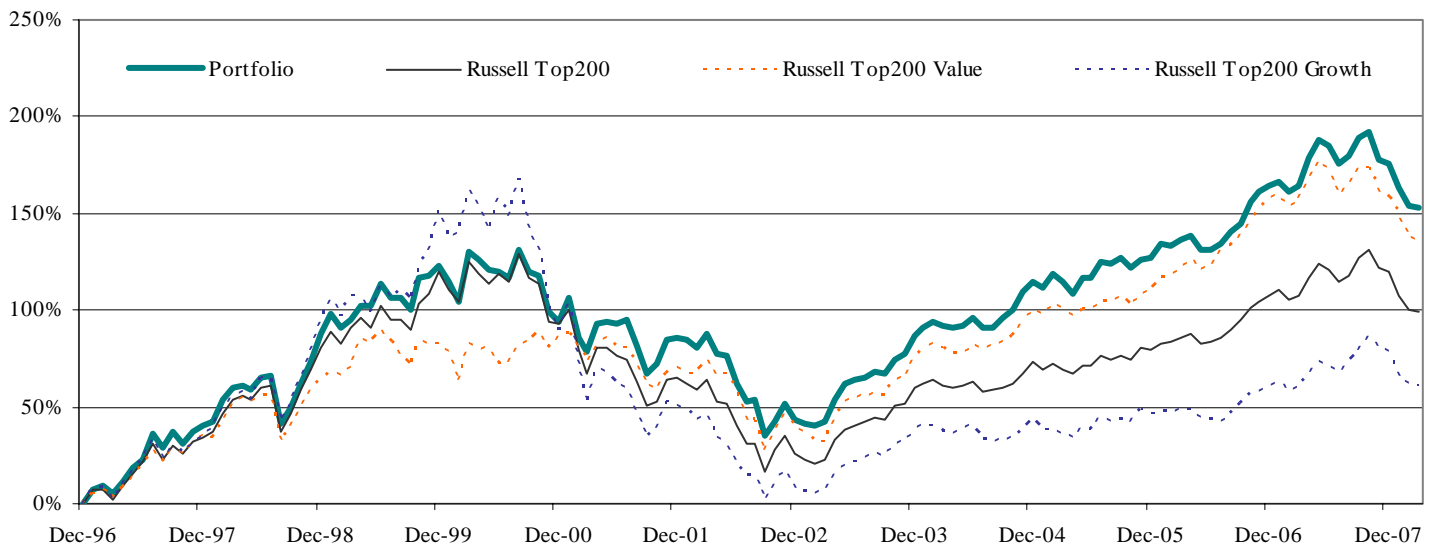
Simulated Returns v. Russell Top 200 Index

In response to several inquiries regarding the application of Shenandoah’s investment process in the mega cap arena, we have completed research on a project in which we apply our process to the Russell Top 200 index. Page 4 of this document is a Mega Cap Fact Sheet, containing a review of our firm, process and product-specific information (fees, benchmarks, etc.).

Summary:

- The study covered an eleven-year period from 1/1/1997 through 12/31/2007. Paper portfolio began 1/1/2008.
- All simulated portfolios were generated using the same stock selection models and portfolio construction (risk-control) techniques employed by our current (live) Midcap, Large Value and 130/30 investment strategies. Please see the Mega Cap Fact Sheet on page 4 for a review of our process and firm.
- All simulated returns are reduced by expected transaction costs.
- **Performance: The simulated Shenandoah Mega Cap process outperformed by 2.3% p.a. (+8.6% v. +6.3% for the Russell Top 200 index) with an annualized tracking error of 3.8%.**

Shenandoah: Simulated MegaCap Returns



	entire period	2008q1	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Shenandoah Mega Cap	8.6%	-8.3%	4.3%	16.5%	5.4%	14.9%	30.4%	-22.6%	-4.5%	-12.9%	18.8%	33.4%	40.8%
Russell Top 200 Index	6.3%	-9.3%	5.9%	15.5%	3.8%	8.3%	26.7%	-23.4%	-14.6%	-12.1%	21.8%	34.0%	34.5%
Excess Returns	2.3%	1.0%	-1.6%	1.0%	1.6%	6.6%	3.7%	0.7%	10.1%	-0.8%	-3.0%	-0.6%	6.3%

Observations:

- The strategy performs well in most markets. It underperforms in aggressive momentum markets like the “internet bubble” period in late 1999 to early 2000 and the momentum market of the second half of 2007.
- It appears the strategy tracks the value half of the Top 200 index, but correlation analyses show otherwise:
 - 97% correlation with Russell Top 200 Index returns;
 - 90% correlation with Russell Top 200 Value Index returns;
 - 91% correlation with Russell Top 200 Growth Index returns;

Performance Disclosures: Past Performance does not guarantee future results. Performance for periods greater than one year is annualized. Gross returns (including realized and unrealized capital gains, reinvestment of dividends and interest) are before fees and administrative expenses. All returns presented here are simulated.

Hypothetical results have many inherent limitations. No representation is being made that any account will or is likely to achieve returns similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular investment strategy. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical investment does not involve financial risk, and no hypothetical investment record can completely account for the impact of financial risk in actual investing. For example, the ability to withstand losses or to adhere to a particular investment strategy in spite of investment losses are material points which can also adversely affect actual investment results. There are numerous other factors related to the markets in general or to the implementation of any specific investment strategy which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual investment results.

Shenandoah Mega-Cap (simulated)

Performance Attribution 1/1997 through 12/2007

	Monthly Return	Monthly Std Dev	T-stat
Shenandoah Portfolio	0.90%	5.68%	1.83
Russell Top 200 Index	0.69%	5.67%	1.39
Total Active Return	0.21%	1.13%	2.18

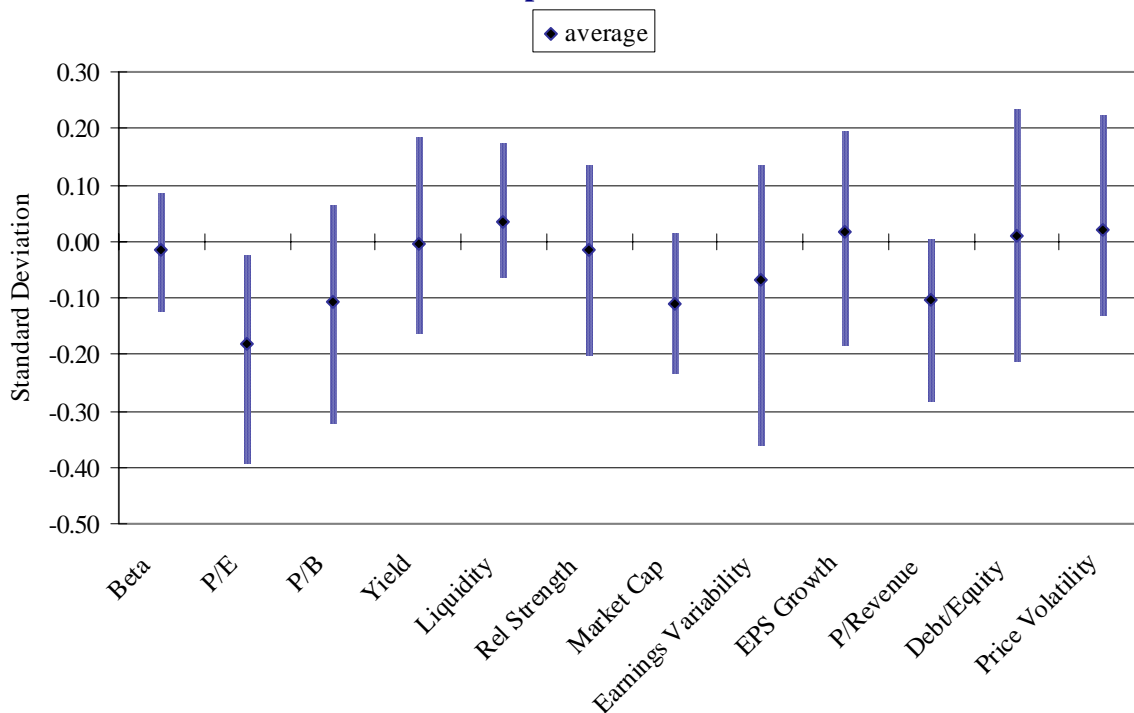
Components of Active Return:

Stock Specific	0.18%	0.97%	2.10
Factor Model Specific (a)	0.04%	0.55%	0.77

Factor Return by Group:

The Industries	0.01%	0.39%	0.17
The Fundamentals	0.05%	0.31%	1.71
Beta	-0.02%	0.17%	-1.03
Factor Model Specific (a)	0.04%	0.55%	0.77

Factor Exposures Over Time



Factor Exposures Over Time (std dev)

Factor	average	min	max
Beta	-0.02	-0.12	0.08
Price/Earnings	-0.18	-0.39	-0.03
Price/Books	-0.11	-0.32	0.06
Dividend Yield	-0.01	-0.16	0.18
Trading Activity	0.03	-0.06	0.17
Relative Strength	-0.01	-0.20	0.13
Market Cap	-0.11	-0.23	0.01
Earnings Variability	-0.07	-0.36	0.13
EPS Growth Rate	0.02	-0.18	0.19
Price/Revenue	-0.10	-0.28	0.00
Debt/Equity	0.01	-0.21	0.23
Price Volatility	0.02	-0.13	0.22

Observations:

- Stock selection accounts for 83% of excess returns;
- Industry and beta tilts are neutral over time;
- Fundamental Factor tilts add an average of 5 basis points per month (P/E factor adds 3 bps monthly);
- Most factors vary versus the benchmark over time, exhibiting little or no chronic biases (Beta, Yield, Liquidity, Relative Strength, Earnings Variability, EPS Growth, Debt/Equity and Price Volatility);
- Portfolio exhibits a slight value bias (< 0.2 standard deviations);
- Portfolio exhibits a slight size bias (0.1 standard deviations smaller than the benchmark – it's hard to build a portfolio that is larger than the Russell Top 200!

Shenandoah Mega-Cap (simulated)

Simulated Portfolio as of 3/31/2008

Ticker	name	portwt%
XOM	EXXON MOBIL CRP	6.41%
GE	GENL ELECTRIC	5.07%
MSFT	MICROSOFT CORP	3.95%
CVX	CHEVRON CORP	3.43%
JNJ	JOHNSON & JOHNS	3.34%
T	AT&T INC	3.26%
PFE	PFIZER INC	3.05%
IBM	INTL BUS MACH	2.98%
WMT	WAL-MART STORES	2.74%
VZ	VERIZON COMM	2.61%
MRK	MERCK & CO INC	2.37%
OXY	OCCIDENTAL PET	2.14%
MDT	MEDTRONIC	2.08%
WB	WACHOVIA CP	2.06%
LLY	LILLY ELI & CO	2.04%
HD	HOME DEPOT	2.00%
AXP	AMER EXPRESS CO	1.96%
BMJ	BRISTOL MYR SQB	1.94%
DVN	DEVON ENERGY	1.88%
DOW	DOW CHEMICAL	1.87%
LMT	LOCKHEED MARTIN	1.84%
APA	APACHE CORP	1.81%
VLO	VALERO ENERGY	1.78%
FNM	FANNIE MAE	1.77%
NOC	NORTHROP GRUMMN	1.75%
WLP	WELLPOINT INC	1.75%
MHS	MEDCO HLTH SOL	1.74%
AET	AETNA INC-NEW	1.73%
ACN	ACCENTURE LTD	1.72%
NKE	NIKE INC-B	1.72%
CAH	CARDINAL HEALTH	1.70%
S	SPRINT NEXTEL	1.70%
ACE	ACE LIMITED	1.68%
BIIB	BIOGEN IDEC INC	1.68%
RF	REGIONS FINL CP	1.65%
BBT	BB&T CORP	1.65%
BBY	BEST BUY	1.65%
SYMC	SYMANTEC CORP	1.64%
MCK	MCKESSON CORP	1.64%
JAVA	SUN MICROSYS	1.63%
FITB	FIFTH THIRD BK	1.62%
BNI	BURLNGTN NSF CP	1.56%
MRO	MARATHON OIL CP	1.49%
AMAT	APPLD MATLS INC	1.06%
MO	ALTRIA GROUP	1.00%
PG	PROCTER & GAMBL	0.82%
BAC	BANK OF AMER CP	0.27%
CSCO	CISCO SYSTEMS	0.10%
JPM	JPMORGAN CHASE	0.10%
Total Stocks		99.43%
Cash		0.57%
Total		100.00%

Portfolio Characteristics

	Portfolio	Russell Top200
#Stocks	49	206
%Exposure	99.4%	100%
Max Position Size	6.4%	5.0%
Max Industry Overweight	7.6%	na
Max Industry Underweight	-4.6%	na
Avg Mkt Cap (\$billion)	117.4	116.2
Earnings quintile	3.2	2.9
Insider Trading quintile	3.8	3.3
Opt E/I quintile	4.0	3.4
QV Valuation quintile	4.1	3.3
Cashflow quintile	4.1	3.7
Cashflow Exp Return	95%	69%
P/E Tr 12 months	12.7	15.3
P/E FY1	12.5	13.7
P/E FY2	11.3	12.0
EPS 5yr Growth Forecast	10.0%	11.6%

Sector Exposures

	port	bench	Net
Energy	18.9%	13.5%	5.4%
Materials	1.9%	3.2%	-1.3%
Industrials	10.2%	11.8%	-1.6%
Cons Discr	5.4%	7.4%	-2.0%
Cons Staples	4.6%	12.5%	-7.9%
Health Care	25.1%	12.5%	12.5%
Financials	12.8%	16.7%	-3.9%
Technology	13.1%	16.3%	-3.2%
Telecomm	7.6%	3.8%	3.8%
Utilities	0.0%	2.3%	-2.3%
Total	99.4%	100%	

Shenandoah Model Exposures

