

October 20, 2008

Dear Fellow Shareholders:

With the significant decline in global share prices in recent weeks, many investors are understandably concerned about their holdings and are wondering what the future holds. As stewards of the Oak Value Fund (the “Fund”), we take this opportunity to address what is happening in the market, how the Fund is positioned, and how we are responding to these events. We also want to express our conviction that our philosophy of buying good, well-managed businesses at attractive prices is especially well-suited for times such as these. Our pursuit of this approach is based on the cornerstone principles of value investing as conceived by Benjamin Graham— to view investing in equities as investing in businesses, to always require a margin of safety, and to remember that the market is there to serve us as investors, not to instruct us.

Securities markets around the globe have experienced a widespread breakdown in confidence in the financial system that is the lifeblood of capitalism. In the pursuit of earnings growth in an era of declining interest rates, falling yields, narrowing spreads, and increasing leverage, financial institutions made bigger and bigger bets on increasingly risky asset classes, especially on instruments where the value was derived from expected cash flow from residential mortgages. As the real estate bubble burst, these financial institutions realized large losses related to these derivative instruments, leaving them with vulnerable capital positions. This weakening of financial strength led to what were, in effect, runs on several mortgage companies, commercial banks, investment banks, and at least one major insurance company. The impact of the destruction goes well beyond these firms’ shareholders; customers and suppliers far and wide have suffered large losses as these financial firms failed. As the situation now stands, even relatively healthy financial market participants, fearful of further losses, are hoarding cash. Consequently, entities dependent on the capital markets for everyday operations are facing a credit crunch that is real indeed, and this is constraining the global economy. In our opinion, recent moves by the Treasury, the Federal Reserve and the FDIC taken in concert with their global counterparts should help restore confidence. That said, it will take time – we didn’t get into this mess overnight and we are not likely to repair the damage overnight.

While the Fund has outperformed the broader market during this period, its market value has still declined. We attribute this relative outperformance to our focus on quality, diversification and limiting exposure to businesses dependent upon the capital markets to execute their daily business operations. Still, as Mr. Graham observed, the market is a voting machine in the short term, even if it is a weighing machine in the long term. The ballot boxes for many of the businesses we have positioned in the Fund have recently been filled with votes of no-confidence. In our estimation, the intrinsic values of the underlying

businesses have not been altered anywhere near as much as their respective stock prices. As a whole and on average, the businesses we hold in the Fund's portfolio are highly profitable, have conservative balance sheets and should continue to generate above average returns on their capital, even through this tough environment. With average operating profit margins and returns on equity in excess of 20 percent and debt to total enterprise value ratios of approximately 20 percent, we believe this is a collection of very good businesses. Furthermore, their valuations are extremely attractive. The average earnings yield and the average free cash flow yield for the companies represented in the Fund are both hovering around 10 percent as we write this letter.

One of the most important factors we consider in making investment decisions is a company's ability to generate cash, and we believe the Fund's portfolio is filled with companies that either have buckets of cash or are generating it. At the end of the third quarter, the Fund's top five positions were Berkshire Hathaway, Apollo, Medtronic, Praxair, and Diageo—each one of these companies throws off significant free cash flow. When we are analyzing a company as a potential investment, we spend considerable time thinking about how a company is likely to use its cash, for example, whether in the form of increased investment in the business, potential acquisitions, or share repurchases and dividends—not whether or not a particular company is likely to generate cash. Cash generation is not the order winner, it is the order qualifier. While the Fund has exposure to some financial companies, including Berkshire Hathaway, Aflac, American Express and Capital One, we believe that each of these companies has ample liquidity to ride out the storm and emerge as a stronger player as weaker competitors are weeded out. Even the companies represented in the Fund that do not pay dividends lack them not because they are insufficiently strong, but because growth opportunities and the potential returns they can generate are so abundant. While we can sympathize with investors who are despondent about the market prices of these businesses, we strongly believe that as the market becomes a weighing machine again investors will be rewarded. In summary, we believe the companies in the Fund's portfolio are well positioned to endure the current difficult financial and economic environment, strengthen their positions relative to their competitors and to outperform relative to their competitors when better days return.

Having addressed how the world came to be in this mess and where it is now, let us turn to how Oak Value is responding to these events. We aren't really doing anything differently. Though the market decline has been painful for Fund shareholders and has taken its toll on our net worth too, the pace of our research on new potential investments has been feverish. Still, competition for investment capital is fierce. As new ideas are vetted, we are faced with the challenge of determining which of the current portfolio businesses we should sell, and at these valuations, that is a tough decision. We have spent the last several years consciously upgrading the quality of businesses in the Fund and we believe that this effort will continue to serve Fund shareholders well.

We continue to monitor economic conditions closely, but our rationale is more opportunistic than outright defensive. We have always incorporated multiple scenarios into our investment theses, and our respective margins of safety are calculated having contemplated bearish assumptions. While it may be true that sometimes the bear case is worse than we originally considered, we firmly believe that any good decision-making framework should consider the potential for undesirable outcomes. We continue to view the concept of having an adequate margin of safety as the bedrock to our approach.

Our investment philosophy remains unchanged in these turbulent times—we look for good, well-managed businesses with durable competitive advantages that we can buy at attractive prices. What is happening in the credit markets and in the global economy is certainly going to have a deleterious impact on many businesses, but there are many others on which the impact will be less severe. Moreover, the survivors of this downturn will be even more formidable competitors when the economy recovers. Those are the businesses we seek to own, regardless of the economic backdrop. We thank you for your continued confidence in the Oak Value team.

With kindest regards,

Oak Value Fund Co-Managers,

David R. Carr, Jr.

Larry D. Coats, Jr.

Oak Value Fund Portfolio Top Ten Holdings as of 09/30/08	
Security Description	% of Net Assets
Berkshire Hathaway, Inc. (CL - A)	10.73%
Apollo Group, Inc.	5.77%
Medtronic, Inc.	5.30%
Praxair, Inc.	5.28%
Diageo plc ADR	5.27%
3M Co.	5.07%
United Technologies Corp.	4.60%
Microsoft Corp.	4.56%
Tiffany & Co.	4.45%
Coach Inc.	4.35%

This letter seeks to describe the Fund managers' current views of the market and to highlight selected activity in the Fund. Any discussion of specific securities is intended to help shareholders understand the Fund's investment style, and should not be regarded as a recommendation of any security.

We do not attempt to address specifically how individual shareholders have fared, since shareholders also receive account statements showing their holdings and transactions. Information concerning the performance of the Fund and our recommendations over the last year are available upon request. Past performance is no indication of future performance. You should not assume that future recommendations will be as profitable or will equal the performance of past recommendations.

Statements referring to future actions or events, such as the future financial performance or ongoing business strategies of the companies in which the Fund invests, are based on the current expectations and projections about future events provided by various sources, including company management. These statements are not guarantees of future performance, and actual events and results may differ materially from those discussed herein. References to securities purchased or held are only as of the date of this communication to shareholders. Although the Fund's investment adviser (the "Adviser"), focuses on long-term investments, holdings are subject to change.

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