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## OAK VALUE FUND

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www.oakvaluefund.com

2<sup>nd</sup> Quarter 2006

Dear Fellow Shareholders:

Fundamental to the principles of “value investing” is the belief that though stock prices will fluctuate, often radically, on a short term basis, they tend to mirror the economics of the underlying businesses on a long term basis. As such, we believe that investors should measure the results of investment activities from the perspective of *business outcomes and share price movement* as the latter is ultimately, and over the long term, dependent on the former. On both accounts, we are encouraged by the results of the most recent quarter. Though the market (as measured by the S&P 500 index) gave back over a third of the gain it had posted in the first quarter, the Oak Value Fund recovered a respectable portion of the lag it posted during that period, outperforming the market handily during the quarter. We view this improved outcome as reinforcement of our belief that *good businesses* with *good management* purchased at *attractive prices* can produce acceptable results.

Contributing most positively to these results in a negative market environment were Comcast, United Technologies, Diageo and IMS Health. Among the most prominent performance detractors during the period were Masco, Equifax, Willis Group, Viacom and E. W. Scripps.

This period of retreat for the overall market provided us with additional opportunities to allocate capital. During the quarter, we added positions in Johnson & Johnson (“J&J”) and DuPont. Our research effort has followed J&J since the early days of our firm’s existence. We actually owned J&J in the Fund more than a decade ago and were attracted then to many of the basic characteristics that have attracted us recently – predictability, diversification, high cash flow generation, conservative capital structure and a disconnect between our perception of the value they represent and that assigned by the market. Though this is our first trip to the altar with DuPont, we believe we are buying a significantly different company than it was a decade ago – limited commodity exposure, science driven R&D generating market leading brands, and excellent leadership focused on their shareholder returns. Our confidence is underscored by the outlook for its business prospects as well as comfort with the margin of safety afforded by recent share prices. During the quarter, we also eliminated the final vestiges of the Fund’s long term holding in Comcast. Additionally, we used this volatility to further increase Fund portfolio exposure to select holdings including Praxair and Masco - both are positions that have been added in recent periods. The net impact of this activity is that the Fund ended the quarter with a cash position lower than the prior quarter.

Though the level of activity in the Fund portfolio has increased in recent periods, our review of the long term portfolio turnover rate suggests that we have merely returned to that which is a more normalized historical pattern. Furthermore, the Fund’s portfolio composition is well within the range of its historical propensity with top ten holdings representing more than 50 percent of the portfolio and the total number of holdings at 21 companies. Additionally, the Fund portfolio is predominately populated with mid-to-large cap companies.

Interesting and somewhat informative, we view these metrics as by-products of our implementation of a proven philosophy applied in a disciplined process. The more relevant metrics that we manage toward are reflected in the “look through” economics of the companies within the Fund portfolio and the valuations at which they are available. At Oak Value, we view such “look through” economics as central to our pursuit. In this regard we are quite enthused that the intersection of our analysis with a volatile market has provided such an attractive opportunity set. The fact that recent results, as measured by share price movement, have improved is of no surprise to us as we fundamentally believe that share prices will ultimately reflect underlying value creation and business economics.

On average, the current Fund portfolio consists of a collection of businesses which we estimate to produce returns on equity and operating margins in excess of 20 percent while maintaining relatively un-levered balance sheets. Our assessment of their future prospects suggests that these businesses should produce on average an annual earnings growth rate of nearly 15 percent during the next five years. Though the Fund portfolio consists primarily of US based companies, a significant portion of them have substantial international operations and should be viewed, in our view, as global businesses. Much of the growth in the world’s economy will continue to take place outside the United States. This attraction to businesses which operate on a more global platform is longstanding and we believe has served Fund shareholders well.

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We remain committed to managing the Fund portfolio for the long-term and, as stewards of your capital, we are very sensitive to the tax implication of distributions on Fund shareholders. Tax laws require the Fund to distribute the net amount that capital gains exceed capital losses to shareholders at least once each year. Therefore, as noted on your June 30, 2006 shareholder statement, the Fund paid a long-term capital gain of \$1.98 per share and a dividend of \$.08 per share to shareholders of record as of June 29, 2006. For more information on this distribution or any specific account information, please feel free to contact a Shareholder Services Representative at (800) 622-2474.

On a final note, we have communicated on various occasions over the last couple of years that we were working diligently to position our research team for the most productive and effective long term results. This transition that took significant time and investment on our part has now largely been completed. Our research team is more focused, more experienced and more engaged than at any point in the firm's history. We have recently organized our operating structure to reinforce our commitment to this research effort as central to the future results of Fund shareholders.

Our primary responsibility is to make good investment decisions on behalf of Fund shareholders – to this task we remain firmly committed.

**Oak Value Fund Co-Managers,**

**David R. Carr , Jr.**

**Larry D. Coats , Jr.**

**Important Information:**

The information presented above is not to be construed as an offer or solicitation to purchase the Oak Value Fund (the "Fund"), which is offered only by prospectus. Information concerning the performance of the Fund and its investment adviser's recommendations over the last year are available upon request.

You should not assume that future recommendations will be as profitable or will equal the performance of past recommendations. The Fund and its investment adviser do not subscribe to any particular viewpoint about causes and effects of events in the broad capital markets, other than that they are not predictable in advance. Specifically, nothing contained in this letter should be construed as a forecast of overall market movements, either in the short or long term. "Top Ten Holdings" is presented to illustrate examples of securities in which the Fund may invest and are not to be considered recommendations by the Adviser. Because they are presented as of the dates indicated and change from time to time, they may not be representative of the Fund's current or future investments. "Top Ten Holdings" does not include money market investments.

Oak Value Fund Portfolio Top Ten Holdings as of 6/30/06	
Security Description	% of Net Assets
Berkshire Hathaway, Inc. (A&B)	10.4
Cadbury Schweppes plc	7.2
E. W. Scripps. Co.	6.7
Constellation Brands, Inc.	6.5
United Technologies Corp.	5.8
Diageo plc	5.8
Aflac, Inc.	5.6
IMS Health, Inc.	5.4
Praxair, Inc.	5.3
Time Warner, Inc.	5.2

Quarter-End Performance for Periods Ended 6/30/06						
	3 Month	Year To Date	1 Year	5 Years <sup>1</sup>	10 Years <sup>1</sup>	Since Inception 1/18/93 <sup>1</sup>
Oak Value Fund	0.49%	-0.04%	-1.66%	0.23%	8.71%	10.79%
S&P 500	-1.44%	2.71%	8.63%	2.49%	8.32%	10.31%

<sup>1</sup> Annualized

*The performance numbers quoted on this page represent past performance and past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance data, current to the most recent month end, may be found at the Oak Value Fund's website [www.oakvaluefund.com](http://www.oakvaluefund.com). The Fund imposes a 2% redemption fee on shares redeemed within 90 days of their purchase date. Please keep in mind the performance information above does not reflect the imposition of a 2% redemption fee. See the Fund's current Prospectus for more information on the Fund's redemption fee.*

*An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other important information. To obtain a copy of the Oak Value Fund's prospectus please visit our website at [www.oakvaluefund.com](http://www.oakvaluefund.com) or call 1-800-622-2474 and a copy will be sent to you free of charge. Please read the prospectus carefully before you invest. The Oak Value Fund is distributed by Ultimus Fund Distributors, LLC.*