INVESTMENT ADVISER'S REVIEW

Fourth Quarter and Calendar Year 2004

OAK VALUE FUND

www.oakvaluefund.com

Investment Adviser's Review
Fourth Quarter and Calendar Year 2004

Summary

- Overall, capital market returns have generally fallen short of investors' expectations during the first complete five year period of the 2000s on which 2004 closed the books. We feel fortunate to have demonstrated sufficient skill during that "wild and crazy" period such that the Oak Value Fund has generally outperformed the broader passive benchmarks for this time frame.

- 2004's broad market performance was led by sectors that almost invariably fail to meet one or more of our qualitative criteria (predictable cash flows, reinvestment opportunities, shareholder oriented management, low valuation relative to cash flow potential, etc.). While we sacrificed a small measure of return in exchange for our convictions in 2004, we believe history has more than adequately confirmed the wisdom of our strategic positioning in this regard.

- Despite two consecutive positive years in performance since the market lows of 2002, we continue to view both the prospect for good returns and the margin of safety inherent in the Fund portfolio as more than worthy of the capital employed. We are encouraged by the quality of the new businesses we added to the Fund in 2004, including fourth quarter newcomer Viacom. At the same time, the Fund portfolio is anchored by businesses we understand, have researched thoroughly and have largely held in the Fund for many years.

- Over 75% of the Fund portfolios' capital is allocated to companies in which it was also invested at the end of both 2003 and 2002. Fund portfolio positions are generally diversified across various profitable economic activities, including insurance and risk transfer, entertainment, beverages, confectionary, travel, real estate, media & information, and retailing. Such ***good businesses*** with ***good management*** purchased at ***attractive prices*** should provide investors the opportunity to own businesses for longer periods.

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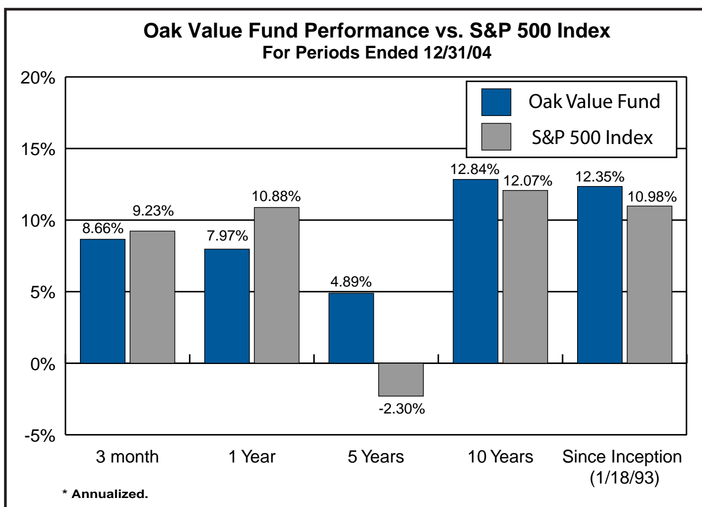
Annual Summary 2004 Portfolio Additions	
AutoZone	Viacom*
Diageo	
Annual Summary 2004 Portfolio Eliminations	
Charter Communications	Interpublic Group
Cox Communications*	Merck
Disney	XL Capital*
* 4Q 2004 Portfolio Action	



Current performance may be higher or lower than performance quoted above. Past performance does not guarantee future returns. Any performance data quoted represents past performance and the investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. 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.

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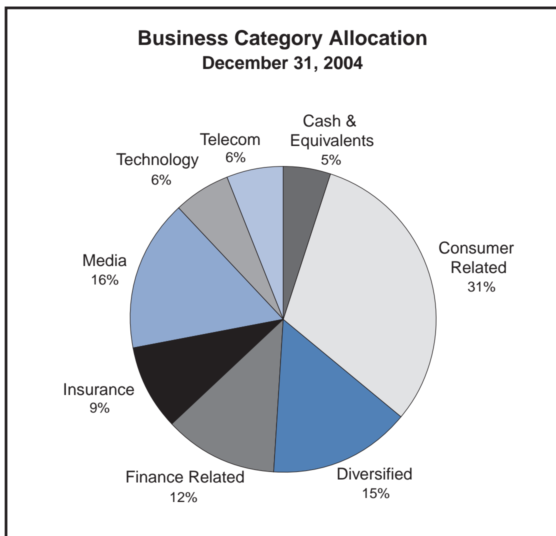
INTRODUCTION AND OVERVIEW

Fund performance improved by high single digits as 2004 drew to a close, slightly less than the appreciation in the stock market as a whole. A post-election rally provided the entire advance for the year, lifting what had been a losing effort for stocks through October into positive territory. Most of the fourth quarter's improvement can be attributed to above-market stock price appreciation in areas of larger Fund portfolio commitments (shown in the pie chart below).

Investments in consumer-oriented businesses continue to represent meaningful Fund portfolio allocations, and solid performance from portfolio exposure in beverages, retail, and cable television made important contributions to fourth quarter returns. These advances partially offset relatively weak performance in financial services companies, another meaningful typical Fund portfolio commitment, for the fourth quarter. Finance related portfolio commitments are focused principally in property-casualty insurers, which produced limited participation in the year-end market rally, largely due to uncertainty surrounding the industry's regulatory environment.

The unmanaged S&P 500 benchmark marginally outperformed the Fund for the fourth quarter. Though returns also lagged the broader market for calendar 2004, the sources of underperformance are readily definable.



Broad market returns for the year were driven by the Energy (+29% return in 2004), Basic Materials (+11%) and Utilities (+20%) sectors. These are areas that we do not typically favor and in which we made no allocation of Fund shareholder capital during the period. Gains in the S&P 500 Index's Energy sector alone (primarily oil and gas producers and related businesses) accounted for the largest contribution to its overall results and the underperformance of the Fund portfolio relative to that benchmark. In our view, companies in 2004's leading sectors almost invariably fail to meet our criteria. While the Fund "gave up" some relative return in these sectors in 2004, we do not expect they will perennially

outperform the compound returns available in the kinds of investments we pursue on behalf of Fund shareholders. We seek to invest Fund shareholder capital in businesses where long term value is related to some sustainable competitive edge that we have come to understand based on our investigation of factors that influence competitive positioning (see inset below).

2004: An "Oil-for Returns" Program for Indexers

Virtually all of the difference between the results of the Fund portfolio and the S&P 500 is explained by return differences attributable to Energy (the Materials and Utilities sectors had similar though more muted effects) exposure - or lack thereof. We believe this point bears some brief exposition, as we think you should understand the rationale that sits behind our "missing" these areas of performance in 2004.

Energy and Materials businesses are "price takers" in the language of microeconomics, deriving their revenue streams largely from commodity prices they do not control. Therefore, in our view, energy and other commodity-driven businesses have insufficient long term influence over their revenue streams, and fail to clear what we have set as prudent and appropriate hurdles in order to commit Fund shareholders' capital.

Utilities, another winner in 2004, are highly regulated and capital intensive, operating (as their label implies) in areas where the pricing power which accompanies product differentiation and consumer affinity for their attributes are both somewhat limited. All of 2004's winning sectors have revenue and cost dependencies on cyclical commodity pricing which history has indicated are difficult to predict with any accuracy (to say the least).

We do not subscribe to an "own a little bit of everything," viewpoint, tying up shareholder capital for the (often rare) occasions when unpredictable pricing cycles positively influence these types of companies. Rather, we spend our time in search of businesses 1) where we believe we understand and can reasonably predict the long term profitability dynamics, 2) that are run by able and honest management, and 3) which are available for less than a conservative appraisal of their long term value. ***Good businesses***, with ***good management***, at ***attractive prices***.

We are more comfortable casting our long term vote for relatively few companies we identify over time where we think we understand the underlying economic drivers and can predict them with some level of confidence. While we sacrificed some measure of return in exchange for our convictions in 2004, we believe history has more than adequately confirmed the wisdom of our strategic thinking in this regard.

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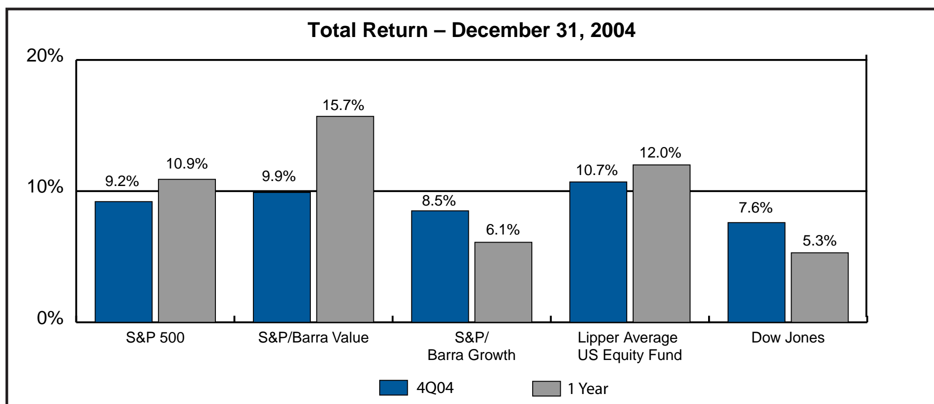

Source: Barra, Wall Street Journal

PORTFOLIO UPDATE

Fund portfolio companies are generally engaged in diverse profitable economic activities, including insurance and risk transfer, entertainment, beverages, confectionary, travel, real estate, media & information, and retailing. They are anchored by businesses we understand, have researched thoroughly and have largely held in the Fund for many years. Over 75% of the Fund portfolios' capital is allocated to companies in which it was also invested at the end of both 2003 and 2002. Over half is invested in companies owned in the Fund since December, 2001. These longer term holding periods are, in our opinion, reflective of the quality of the businesses and their respective management teams rather than related to either the overall market environment or "investment inertia." ***Good businesses*** with ***good management*** purchased at ***attractive prices*** should provide investors the opportunity to own businesses for longer periods.

Top Ten Holdings
As of December 31, 2004

Company	Primary Business
Ambac Financial Group	Financial Guarantee Insurance
AutoZone	Auto Replacement Parts Retail
Berkshire Hathaway	Insurance, Reinsurance & Capital Allocation
Cadbury Schweppes	Soft Drinks, Candy & Gum
Cendant	Travel, Hospitality & Mortgage Finance
Comcast	Entertainment & Information Services
Constellation Brands	Wine, Beer & Spirits Production / Distribution
E.W. Scripps	Entertainment & Information / Media
Time Warner	Entertainment & Information / Media
Zale Corporation	Fine Jewelry Retailing

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Fund portfolio activity remained limited throughout 2004 reflecting the fact that we prefer the collection of businesses already held in the Fund to those available for sale in the broad market. We are agnostic on portfolio turnover per se - it's a by-product of opportunities we find, rather than a target. We maintain an active and energized research calendar, which we expect will translate into some level portfolio activity over time. Margin of safety is the determining factor that moves them from "launch pad" status to purchase candidates for the Fund portfolio. Our propensity to attempt to predict the timing of when new opportunities will present themselves remains low. We will continue to focus on the preparation side of the equation.

Notwithstanding our long term holding periods, we regularly challenge the assumptions which support these very important allocations of capital. We recognize that business values shift over time, expanding or contracting in response to competitive forces, business evolution, acquisitions, and other environmental changes. For example, in response to such ongoing developments, we eliminated Fund portfolio positions during 2004 (see table on Page 1) in companies where we no longer had a favorable view of the discount of stock price from intrinsic value, including several that had become "problem children" during some or all of their tenure.

From our vantage point early in 2005, we are confident that Fund shareholders maintain partial ownership interests in a collection of high quality businesses that maintain the general parameters (predictable cash flows, reinvestment opportunities, shareholder oriented management, low valuation relative to cash flow potential and our intrinsic value estimates, etc.) that have demonstrated the potential to compound wealth at above average rates over time. This confidence also extends to the businesses we have added to the Fund portfolio in 2004, including fourth quarter newcomer Viacom (details below).

PORTFOLIO CHANGES

During the quarter we initiated one new Fund position, Viacom (Class B), and eliminated two existing positions, Cox Communications, and XL Capital. Viacom is a media and entertainment company with leading properties in cable and broadcast networks, film and television content, radio, and outdoor advertising, an asset profile we have long examined and which we believe has solid long term value. We sold Cox and XL for completely different reasons, reviewed in detail below. In summary, a pending purchase of all of Cox's public equity left us little choice but to sell, while we sold XL when we became less confident in its management team's ability to realize the potential value of the underlying business.

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4Q 2004 Purchase / Sale Activity	
Position	**Investment Thesis / Reason for Sale**
Purchased: Viacom	Well-liked and largely quite profitable content and an impressive asset lineup that we believe is worth substantively more in aggregate than the value the market is currently assigning it.
Sold: XL Capital	Challenges from an acquisition, concerns about accelerated business expansion, and financial losses in a newer business led us to reduce our intrinsic value expectations for XL over time.
Sold: Cox Communications	We sold the Cox position pending a repurchase offer for all of its publicly traded shares by its parent company.

Purchases

"Interjections (Hey!) show excitement (Yow!), or emotion (Ouch!). They're generally set apart from a sentence by an exclamation point, or by a comma when the feeling's not as strong."

- Interjections! (from the School House Rock series)

Surveys have indicated that average Americans struggle to recall historical facts learned in grade school, such as the preamble to the Constitution. We'd bet dollars to donuts on a statistically significant improvement in the success rate for a sample of Americans between roughly the ages of 30 and 40 by introducing one memory aid. Allowed to listen to the music of the "We the People" song from School House Rock about the founding of the American republic, we suspect a good number of them could ***sing*** the preamble right along. The School House Rock cartoon shorts featured memorable ditties sandwiched between Saturday morning cartoons and were designed to teach children multiplication tables, grammar, science, American history, etc. in a way that was fun and entertaining. Though the Emmy award winning interludes last aired regularly in 1985, they remain among the most memorable refrains in television history and an example of the enduring power of great content. (Say "*Conjunction Junction*" to your average Gen X-er, and we'd be surprised if they don't retort "*what's your function*" in short order.) The Grammar Rock ode above is proffered to highlight our enthusiasm about the value potential in the most recent addition to the Fund portfolio (though that specific content belongs to Disney, courtesy of their ABC acquisition).

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Viacom is a diversified worldwide entertainment company with operations in cable and broadcast television networks, radio and TV stations, outdoor advertising venues (billboards, information kiosks, etc.), original movie and television development, theme parks, and publishing. We have long been fans of the value creation that can accrue to those who create and control compelling intellectual property. In the entertainment field in particular, the refrain is often heard that "content is king." Viacom may well be the reigning "king of content," with bragging rights to and economic interests in ***Sponge Bob***, ***CSI***, and the patriarch of the current reality TV rage (for better or worse), MTV's ***Real World***. Within its vast portfolio the company controls some of the most well-known and profitable media properties in the world, including the CBS and UPN networks, MTV, VH-1, Comedy Central, BET, Nickelodeon, Infinity Broadcasting radio stations, as well as the iconic Paramount studios, and Simon & Schuster publishing.

Today's Viacom traces its lineage back to the 1886 formation of bygone icon Westinghouse, and achieved its current incarnation through a series of merger transactions within and among its individual primary business lines (TV networks, radio, outdoor, entertainment) since the mid 1990s. Notable combinations include CBS and Westinghouse in 1995, the acquisition of the Infinity Broadcasting radio network in 1996, the 2000 merger of CBS and Viacom, and the 2001 BET acquisition. The individual pieces of today's Viacom are solid producers of cash flow, with competitive market positions that currently range from leading to dominant. For example, CBS is the number one television network, 90% of their radio stations are in the top 50 US markets, and MTV and its advertiser-cherished youth demographic is arguably the most valuable network on the planet.

Despite its asset quality, Viacom has in past years experienced some challenges in producing financial results sufficient to compensate for the large number of new shares issued to consummate the business combinations detailed above. We have often observed that such is the case where large merger transactions have preceded, and we have invested significant research effort through the years toward maintaining an understanding of Viacom's operating and financial profile and where its management team is leading the company. We believe that Viacom's future value will be dictated both by the success of its business properties and the execution of the fiscal choices made by its management to address its opportunities for increasing return on capital.

In our opinion, management's attraction to "transforming" deals is limited by the recent decline in company shares in response to these and other concerns. We anticipate that Viacom's management and board of directors have the means, motive, and opportunity to use their available cash sources to execute a meaningful share repurchase program. As evidence of shifted corporate cash

priorities, Viacom has already announced their intentions to dedicate the $8 billion in proceeds from the Blockbuster spin-off to share repurchases. We have seen similar examples where management teams with solid cash-producing assets have been faced with a "show me" attitude by investors in the wake of acquisition related challenges. The attendant sharpening of focus toward shareholders and away from deals can produce very beneficial results, if executed with diligence by corporate executives in possession of viable cash generating assets.

The list of factors which have converged to provide us with the unusual opportunity to purchase such a valuable business at what we believe to be an attractive valuation is as diverse as the collection of businesses represented by this media conglomerate. Included in this list is the legacy of Viacom's Blockbuster ownership (divested in October), management succession question marks, and expected growing substitution toward subscription satellite service in its radio business, among others. Most of these items, while relevant to some degree, fall into the category of Viacom's portfolio of attractive economics outweighing its "headline risk" over time, in our view.

Though these and other challenges may influence short term stock price volatility, history has demonstrated that they are less likely to significantly impact long term value. For example, a formal management succession plan was put in place after Mel Karmazin's departure during the year. Chairman and CEO Sumner Redstone has announced the expected date of his retirement and has now identified the two potential candidates for the company's leadership succession. One of two veteran media executives, Tom Freston or Les Moonves, will assume that role upon Mr. Redstone's retirement.

Investor concerns about the future of the radio business are further demonstrations of a fundamental misunderstanding of the business as well as a source of security and risk mis-pricing in our view. We have years of experience evaluating the advertising supported media business model and will be watching this important cash-generating part of Viacom's portfolio on an ongoing basis. The industry has some work to do in marketing, and shrinking its ballooned advertising "inventory" (minutes per hour) in order to soothe listeners for starters. Personal listening devices such as the i-Pod certainly have had a substitution impact, though we note that radio survived the advent of recorded media and the walkman with its advertising revenues intact. We also encourage pundits to carefully consider the likely impact of digital radio before writing off this collection of cash generating businesses. We simply do not believe that satellite radio represents the kind of imminent economic threat that some commentators have posited, nor that it will supplant the entrenched - and free - airwave broadcasting system any time soon.

The catalyzing shift motivating our purchases, beyond discount to intrinsic value, is the change in management attention to a focus on shareholder returns that we believe now prevails at Viacom. Our discussions indicate that the focus for management at Viacom during our foreseeable investment horizon will be to earn adequate levels of return on invested capital, or if such investments are not available, to return excess cash to the company's shareholders. Though there is some risk inherent in the available menu of reinvestment choices (for example, additional filmed entertainment projects that fail to work out), we are encouraged by the direction that Viacom appears to be headed in terms of allocating its cash flows and delivering on their organic reinvestment opportunities. This is in stark contrast to the company's traditional focus on acquisitions. As a creator and owner of niche, valuable content, Viacom's business contains sustainable competitive advantages that have the capacity to extract value from consumer and advertising dollars dedicated to the entertainment value chain, and hopefully to generate above average returns for its shareholders in the process.

Sales

The rationale behind the sale of the Cox Communications position is straightforward. We sold the Fund portfolio position in response to a pending repurchase offer for all of its publicly traded shares by its parent company, Cox Enterprises (diversified media), which controlled a majority of Cox Communications (cable systems) voting equity. Though our attraction to the assets and management team at Cox (cable systems) remains, we found cold comfort in the marginal increase in share price realized from our sale of those shares. As a consolation, we believe that the transaction represents an interesting benchmark for valuing the cable assets of the industry's two largest players, Comcast and Time Warner.

At XL, continued financial challenges from their Nac Re acquisition, our evolving concerns about accelerated business expansion, and financial losses in a newer business line led us to reduce our intrinsic value calculations for the business over time. This was a challenging decision; we had great hopes for the ultimate value of their diversified risk management franchise.

As investors, our first objective is that of protecting against possible impairment of capital and then to increase Fund shareholders' capital. We concluded that the risk/reward profile of the Fund's investment in XL was no longer tilted in our favor. The final straw for us was a reported loss in financial guarantee, or bond insurance, a newer business line for XL. The economic magnitude was modest relative to XL's total finances. However, we viewed the development more critically than other analysts may have, because of our more than passing familiarity with the financial guarantee business, earned through our long

holding of AMBAC, one of the leading players in that industry. Framed within that context, it was our view that XL should have been many years, not months, into this business line before experiencing losses if they were underwriting consistently with high quality industry players.

We acknowledge that XL's most sizable economic challenges have related to an acquired rather than "home grown" business. Conservatism must be ingrained in the cultural "DNA" of a successful insurance business, in our view. The wide latitude inherent in establishing loss assumptions and the associated financial reporting thereof have long reinforced the need for a conservative posture. Financial risks can lie dormant but no less dangerous for long periods, obscuring the true economic performance until a later date when accounting and reality are reckoned via the unforgiving mechanism of financial statement write-offs. We sold the XL position held in the Fund during the fourth quarter after concluding that the execution risk inherent in this investment was greater than we had previously reckoned. Though the margin of safety may well have been sufficient to have warranted a continued allocation of capital, our confidence in the ability to realize the anticipated returns was significantly reduced.

Five Largest Holdings Update

Berkshire Hathaway

Berkshire's share price did not participate in the year-end rally, and in fact increased only 4% for the year, a detractor from performance for 2004 since it continues to be the largest single position in the Fund portfolio. In October, New York Attorney General Elliot Spitzer filed a civil fraud lawsuit, against the Marsh & McLennan Companies accusing its Marsh insurance brokerage arm of rigging bids for insurance contracts. Berkshire was not involved directly in this episode (its reinsurance businesses interact directly with risk management clients, rather than through a brokerage arrangement) though companies across the property casualty insurance spectrum subsequently entered an uncertain period that has yet to lift.

Separately though, Berkshire's General Reinsurance division was named as party to a court complaint in Tennessee, with associated investigations by the Securities and Exchange Commission and Mr. Spitzer's office. The complaint relates to a Tennessee insurer's insolvency and its purchase from Gen Re (prior to Gen Re's 1998 acquisition by Berkshire) of retroactive reinsurance policies. Though we currently believe these events are unlikely to have a material financial impact on Berkshire, the size and scope of recently publicized settlement payments alone are likely weighing on investors' minds and valuation assumptions.

On an operating basis, Berkshire continues to pile up cash, largely because its acquisition activity has quieted, likely in response to reduced market volatility relative to its active years in 1999-2002 when unsettled markets opened up

more opportunities. We were intrigued by the announcement that Microsoft's Bill Gates would join Berkshire's board of directors, to replace Susan Buffett who passed away suddenly in July, 2004. The important linkage between board composition and Berkshire's cash reserves in our view is that it limits the oft-repeated risk that such a hoard must be discounted because Mr. Buffett may not be there to invest it, based on his age. His wife's recent passing likely sharpened the focus on that risk for some investors.

We believe naming Mr. Gates continues a progression of thoughtful, intelligent, business talent being added to Berkshire's board, which already included both long time and newer members who have outstanding business reputations and track records, *specifically including very impressive credentials in the arena of capital allocation*. While cognizant of Mr. Buffett's eventual departure and the short term price dislocations it might create, we note that Berkshire's sizable (and growing) cash hoard presents its board of directors and his executive successors with significant financial flexibility to initiate accretive capital transactions that might well mitigate any short term dislocations in Berkshire's price-to-intrinsic value ratio.

As a final aside, recent price weakness in property and casualty insurers led us to freshen up our valuation assumptions about other large, multi-business companies with a sizable financial component and an operating model that relates broadly to reinvesting capital. AIG is one such business that is somewhat analogous to Berkshire, and while perhaps not immediately as obvious, we think General Electric is one as well. This is an analysis we have pursued before, and is more than an academic exercise, since it's appropriate to view these companies as a roughly comparable peer group we might select from as an opportunity set. All three are large, diversified, high credit-quality public companies that function with a large capital reallocation component. We continue to maintain that stocks are not museum pieces; if we thought we could find a better quality business franchise with comparable valuation and upside potential, we would make the trade.

Whenever we have occasion to head down this path, we come away from the analysis with the same conclusion. Berkshire is in our view more conservatively financed, less risky in any common-sense usage of that term, with a superior business profile, and investment opportunity set. Its shares are also in our view priced at a larger discount to its conservatively estimated intrinsic value. In light of the sizable position of Berkshire in the Fund portfolio, we expect (but of course cannot guarantee) to be rewarded for that opinion over time.

Constellation Brands

After a sizable dip earlier this year Constellation's share price rebounded throughout 2004 to finish as the best performing stock held in the Fund portfolio during both the fourth quarter and 2004. Constellation completed its

acquisition of the Robert Mondavi Corporation at the end of the year, a transaction that vaulted it to the largest US wine company based on sales.

Clearly, this company has come a long way from the roots of their original flagship brand, Richard's Wild Irish Rose (named for current CEO Richard Sands). An important part of our maintenance research is to consistently reconsider our valuation assumptions in the face of corporate transformation and stock price change. We will be especially vigilant in consideration of Constellation's significant increase in the stock price over the past twelve months.

We anticipate that organic sales growth, cost savings and the solid execution we have come to expect from Constellation's management will continue to yield good operating and financial outcomes, facilitating an environment that allows for a longer ownership period of this fine business. We are especially attuned to indications of progress in acquisition situations, and we will be watchful of near term milestones for the Mondavi integration. We believe Constellation is a very good business; the area on which we will remain focused is the relationship between its stock price and the long term intrinsic value of its evolving business.

E. W. Scripps

Scripps' stock price barely budged in the fourth quarter and for the full year, adding little contribution to the Fund portfolios' performance in 2004. We suspect the company may be experiencing a gathering period similar (though likely smaller in magnitude) to their past experience during 1999-2001 when they built subscribers and advertising revenues and the viewer experience for the now more mature HGTV and Food networks. At that time, while competitors paid top dollar to grow by acquisition of traditional media, Scripps organically produced compelling content, honed the model of value inherent in the tight content / advertiser / viewer nexus, and grew subscriber counts for the new networks through the execution of carriage agreements with cable and satellite companies.

For several years, Scripps ignored the drain on current earnings caused by network start up costs and kept building their value to a point that today far exceeds their investment. Its stock price marked time for several years even as the additional value that the networks were adding to the company was reasonably discernible to watchful observers. While we would not expect the same ultimate magnitude of reward, we are interested to see where Scripps can take their collection of compelling content and what new capital allocation gems they may cultivate along the way. Scripps continues to execute on its long term strategic plan, having launched two additional networks, Do It Yourself (DIY) and Fine Living, and purchased a third, Great American Country, along with the Shop at Home Network. Combined with the value they already have

inherent in the earlier content effort, we are comfortable with the margin of safety between the company's current stock price and its intrinsic value.

Time Warner

Time Warner was among the top performers held in the Fund during the fourth quarter and was roughly in line with the broad market's appreciation for the full year. In many ways both similar and different than recent portfolio addition Viacom, Time Warner is a global media giant with operations in movie and television entertainment, cable television networks, cable television distribution systems, publishing and internet operations through its AOL subsidiary. Some phenomenal performance for the entertainment assets over the past few years have been overshadowed by challenges related to the AOL merger. (Long term Oak Value Fund shareholders may recall that the first shares (in AOL Time Warner, as the company was then known) were added in late 2001, after much of the initial euphoria over that deal had already evaporated.)

While Time Warner may be challenged to replicate their content accomplishments year in and year out, we disagree with conventional thinking that the company's value should be truncated as a penalty for successful but hard-to-replace mega hits such as ***Harry Potter***, the ***Lord of the Rings***, and the ***Sopranos***. Time Warner's sales from content creation (as well as advertising revenues to a lesser degree) are "lumpier" than subscription sales, but it retains valuable creative franchises that have proven an ability to periodically generate impressive cash flows for shareholders. Consumers' growing propensity to purchase DVD collections, even for shows readily available in re-run syndication (already a big money maker for creators of content) has added yet another lucrative revenue stream for desirable entertainment. In this regard, the "content is king" adage applied in our Viacom discussion applies equally well to Time Warner.

CEO Richard Parson's has continued to demonstrate the company's financial flexibility by reinvesting Time Warner's excess cash flow in high return assets. For example, the company has been essentially precluded from improving its already strong position at Time Warner Cable since July of 2002 due to regulatory uncertainty and the attendant financial constraints. Now, after significant debt reduction and reduced uncertainty related to cash needs in the legal and regulatory realm, capital allocation planning can be refocused on shareholder value. In that regard, our discussions with Time Warner indicate a willingness to devote capital to its highest reinvestment purposes among Time Warner's portfolio of opportunities. In general, we believe its management team has done a commendable job in the wake of the clearly value-destroying AOL merger transaction in early 2001, and we are looking forward to additional follow-through in the reinvestment arena as well. They have made solid progress since re-setting the sky-high "pie in the sky" expectations from the merger days by dramatically improving the balance sheet and putting good

people in place to run the individual business units. While some challenges remain, particularly in evolving the AOL business model over time, we believe Time Warner shareholders retain a comfortable margin of safety between the company's improved recent stock price and the reasonable intrinsic value attached to its high quality asset portfolio.

Zale

Zale stock price was a modest performer for the fourth quarter, though it added respectable relative value for the Fund portfolio in 2004 as it outperformed the S&P 500 for the full year. Zale's opportunity for its shareholders lies in our view with plans for sales and store expansion, supply chain improvements, and intelligent allocation of cash flow by its management. These combinations of factors serve to counter any recent concerns raised about marginal reductions in low price point jewelry purchases of late.

You may recall that over the summer, Zale shares negatively reacted to concerns that on-line jewelry retailers Blue Nile and Amazon.com represented a significant risk for traditional retail jewelry stores. This evolution in the competitive framework may account for the persistent discount we believe has existed for some time in Zale's stock price relative to its intrinsic value. Such uncertainty moves stock prices in the short term, but does not necessarily influence long term business values to the same degree.

We readily acknowledge that online retailers will likely grow their businesses at a very healthy pace over time. There is a sizable market for jewelry in the direct-to-consumer world, and e-commerce is an indisputable force within that framework. We do not believe, however, that it follows that growth in internet jewelry bodes an economic impact at the same pace on all participants in the traditional retail jewelry market. In our opinion, traditional retail establishment shopping - for personal, often gift-based items such as jewelry in particular – maintains relevant advantages.

We have a long history of evaluating the structure and features of retailing in general and the jewelry industry specifically, which is highly fragmented yet delivers a relatively attractive set of economic outcomes to owners. In our view there are commanding forces in place related to consumer and supplier positioning in the industry that will resist the wholesale movement of precious stones' pricing toward a model more reminiscent of commodities traded on a mercantile exchange than today's retail transactions.

Moreover, jewelry sales are concentrated around a few holidays (e.g., Valentine's Day, Christmas, Mother's Day) that are fixed on the calendar long in advance, though a certain percentage of the population still somehow frequently finds itself without a gift for that special someone just a few days or

hours prior to the event. We believe Zale maintains a scale advantage in this regard, with its national store footprint and diverse brand coverage of distinct consumer types not necessarily present for industry participants with only regional or local geographic exposure. The "touch it, feel it, look at it, try it on" aspect inherent in jewelry purchases remains a factor that we believe internet merchants will be challenged to replicate, and its perpetuation creates a competitive edge for Zale that we think is far more valuable than is represented in its recent stock price. The management of Zale Corp. has demonstrated its respect for the competitive landscape in which the company operates. Additionally, this management team has demonstrated an admirable respect for the shareholder capital for which is it responsible. In our opinion, Zale remains a good business, with good management available to us as long term investors at still an attractive price. The above average results the Fund has experienced from this investment over its multi-year holding period have continued to confirm our thesis in this regard.

CONCLUSION

While we are pleased with the Fund portfolio's prospects and the late year performance improvement, we remain cautious and mindful of those factors outside the control of the companies in which we invest. There are always similar concerns that bear examination and recent times are no exception. Interest rate risk, terrorism, deficits, the value of the US dollar, and generally high valuations for most equities are among the current challenges routinely listed in popular and financial media, and some of them clearly have the potential to impact stock prices over the near term. While cognizant of such concerns, our experience suggests that a focus on a few high quality businesses is the most productive expenditure of our thoughts and effort.

Despite significant ebb and flow in both the businesses and stock market prices, we believe many existing Fund portfolio positions continue to sell at market prices that are substantively discounted from their long term intrinsic value. Therefore, despite two consecutive positive years in performance since the market lows of 2002, we continue to have confidence in both the prospect for good returns and the margin of safety inherent in the Fund portfolio as they are structured today. In an overall market which is not widely viewed as particularly cheap, we will remain opportunistic in our response to stock price fluctuations.

If you have specific questions related to individual holdings, performance, our philosophy, strategy or research, please call us here in Durham; we welcome that dialogue. We thank you for your continued partnership.

Investment Adviser's Review
Fourth Quarter and Calendar Year 2004

IMPORTANT INFORMATION

Authorized for distribution only if preceded or accompanied by a prospectus. Where shown or quoted, recent company returns (for example calendar quarter or trailing twelve months) are stock price changes only, and reflect neither dividends nor any fees associated with an investment in the Oak Value Fund (the "Fund"). This Fourth Quarter of 2004 Investment Adviser's Review 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. Displays detailing a summary of holdings (e.g., Top Ten Holdings, Business Category Allocation, etc.) are based on the Fund's holdings on December 31, 2004. "Top Ten Holdings" do not include money market investments.

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 focuses on long-term investments, holdings are subject to change.

This Investment Adviser's Review may include statistical and other factual information obtained from third-party sources. We believe those sources to be accurate and reliable; however, we are not responsible for errors by them on which we reasonably rely. In addition, our comments are influenced by our analysis of information from a wide variety of sources and may contain syntheses, synopses, or excerpts of ideas from written or oral viewpoints provided to us by investment, industry, press and other public sources about various economic, political, central bank, and other suspected influences on investment markets.

Although our comments focus on the most recent calendar quarter and year, we use this perspective only because it reflects industry convention. The Fund

and its investment adviser do not subscribe to the notion that three-month calendar periods or other short-term periods are either appropriate for making judgments or useful in setting long-term expectations for returns from our, or any other, investment strategy. 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 Investment Adviser's Review should be construed as a forecast of overall market movements, either in the short or long term.

Any hyperlinks and/or references to other web sites contained in this material are provided for your convenience and information. We do not assume any responsibility or liability for any information accessed via links to or referenced in third party web sites. The existence of these links and references is not an endorsement, approval or verification by us of any content available on any third party site. In providing access to other web sites, we are not recommending the purchase or sale of the stock issued by any company, nor are we endorsing products or services made available by the sponsor of any third party web site.

Indices are unmanaged and do not reflect the payment of advisory fees and other expenses associated with mutual funds. Investors cannot directly invest in an index, though index funds designed to replicate the performance of various indices are generally available. The S&P 500 is a registered trademark of the McGraw-Hill Companies, Inc. and is an unmanaged index of common stocks of 500 widely-held companies as determined from time to time by Standard and Poor's Corporation in their discretion.

Barra and names of Barra products referenced herein are trademarks or registered trademarks of Barra. In May 1992, Standard and Poor's® and Barra, Inc.® jointly released the S&P 500/Barra Growth Index and the S&P 500/Barra Value Index designed to track two of the predominant investment styles in the U.S. equity market. The indices are constructed by dividing the stocks in the S&P 500 Index according to their corresponding Barra Book-to-Price risk index factor exposures, which are derived from an individual company's book-to-price ratio. Each S&P

Oak Value Fund Portfolio as of 12/31/04

Security Description	% of Total Fund Assets
Berkshire Hathaway, Inc. A & B	9.3%
Constellation Brands, Inc.	7.1%
Zale Corp.	7.0%
E.W. Scripps Co.	6.2%
Time Warner, Inc.	6.0%
Comcast Corp.	5.5%
Ambac Financial Group, Inc.	5.4%
Cadbury Schweppes, PLC	5.4%
Autozone, Inc.	5.4%
Cendant Corp.	5.3%

500 Index company is assigned to either the S&P 500/Barra Growth Index or the S&P 500/Barra Value Index, which were designed to hold no equity issues in common. The Barra Value (Growth) Index contains those S&P 500 Index companies that have higher (lower) Book-to-Price risk index factor exposures and, as a consequence, higher (lower) book-to-price ratios. As is the case with the S&P 500 Index, each S&P 500/Barra Growth and Barra Value Index member is assigned a weight within each index that is in direct proportion to its market capitalization. The S&P 500 Index and S&P 500 / Barra Value referenced include the reinvestment of dividends.

The Lipper returns are calculated by Lipper Inc., a Reuters Company, which is a nationally recognized organization that compares the performance of mutual funds with similar investment objectives. The returns represent the average performance of included funds and are based on total return performance, with capital gains and dividends reinvested, with annual operating expenses deducted, but without including front- or back-end sales charges.

The Dow Jones Industrial Average is a price-weighted index composed of 30 of the largest, most liquid New York Stock Exchange and NASDAQ listed stocks that are major factors in their industries, and widely held by individuals and institutional investors. Prepared and published by Dow Jones & Co., it is one of the oldest and most widely quoted of all the market indicators. The Dow is a price weighted index, meaning that the weight of each firm in the index is proportional to its share price, rather than the more common capitalization weighted index construction, where a constituent's weight is proportional to its outstanding market value as a percentage of the total.

The Oak Value Fund is distributed by Ultimus Fund Distributors, LLC.