FOURTH QUARTER 2008

PERFORMANCE

	4Q 2008	*Trailing 12 Months*	*3Years*	*5 Years*
SCM US Equity	**-22.45%**	**-40.21%**	**-8.89%**	**-2.81%**
vs. Russell 1000 Growth	-22.80%	-38.45%	-9.11%	-3.43%
vs. S&P 500 (total return)	-21.94%	-36.99%	-8.35%	-2.19%
SCM Int'l Equity	**-17.54%**	**-39.64%**	**-5.35%**	**0.07%**
vs. MSCI EAFE Growth	-20.10%	-42.69%	-6.54%	1.44%
vs. MSCI EAFE	-19.95%	-43.38%	-7.35%	1.66%

Performance is net of fees. Please see last page for important GIPS disclosures.

2008 is certainly the year everyone wants to forget. Like everyone else, we are happy to move on to what we want to believe will be a better 2009. However, Simms Capital did have some bright spots. Our International portfolio was well ahead of both its benchmarks (EAFE & EAFE Growth) for Q4 as well as the year. Our Domestic portfolio beat the Russell 1000 Growth Index in each of the last three quarters after a very tough start to the year.

We wish to reiterate that Simms Capital is NOT a hedge fund; is NOT dependent on (and does NOT invest in) the credit markets; does NOT employ leverage, short selling or derivatives. The firm is stable and debt-free. (We utilize independent third party custodians and client-designated broker/dealers in order to maintain segregation of fiduciary duties).

NORTH AMERICA:

Volatility was astounding with 18 days of ±5% or greater moves in the S&P 500 this year alone. Only 17 such days of ±5% swings in total occurred from 1956 through 2007! Additionally, only 15 members of the Index had gains for the year. President Obama is inheriting quite an economic mess, and the pressure is on him to speed his proposed $825b (and climbing?) fiscal stimulus through Congress and help create three million jobs. The most recent jobs data makes 2008 the worst year for employment since the end of World War II with the jobless rate at 7.2%, a fifteen year high. Interest rates cannot go much lower since we are currently hovering around 0.25%. The Fed continues to be creative in addressing the credit crisis and recession.

EUROPE

Europe has not been spared from the financial turmoil. On January 15th, the ECB cut its benchmark rate by 50 basis points to 2.0%, matching a record low. The Bank has lowered rates by 225 bps since early October. In December, inflation slowed to 1.6%, below the 2% ceiling for the first time since August 2007, leading to this most recent cut. Consumer confidence at the lowest on record and unemployment at a two-year high also helped to solidify the decision. EU leaders also recently pledged up to 1.5% of GDP ($278b) to stimulate the economy.

Switzerland was the outperformer for both the quarter and the year, followed by Spain. Next were France and Germany. Greece and Ireland were the laggards as they are the most like emerging market countries. (Greece was recently reclassified to Developed status.)

UK

On January 8th, the BOE cut its benchmark rate by 50bps to 1.5%, the lowest since the central bank was founded in 1694, to halt the deepening British recession. *[Trivia: King William III founded the central bank with a 6% rate to fund a war against Louis XIV's France, and it did not fall below 4% throughout the 18th century.]* That followed the 150bps slashing a month earlier. Further measures had to be taken to ease the availability of credit to both households and businesses to increase the flow of lending to the non-financial sector. In December, home prices fell the most since 1991 and consumer confidence dropped to the lowest level in four years. Inflation has started to slow, but is currently 4.1%.

JAPAN

2008 was the worst year ever for Japanese stocks. In addition to the global recession, the surging Yen (hovering at a thirteen year high) jeopardized corporate earnings in the export-dependent economy. The Nikkei 225 fell 42% in Yen but only 29.2% in US dollars making it the best performer among the major economies. Toyota, the country's largest company, is predicting its first ever operating loss. Not wanting to feel left out, the BOJ also cut its benchmark rate in December to 0.1% from 0.3%, mostly a symbolic gesture. In October, the Bank had lowered rates for the first time in seven years. But it also increased the purchase of government debt and announced plans to buy commercial paper for the first time. Japan will spend ¥10 trillion ($111b) on its economy. This followed the sharpest drop in business confidence (the Tankan Report) in 34 years.

EMERGING MARKETS

The plummeting of commodity prices sent the MSCI Emerging Markets Index down 54% in 2008, the most ever. China's economy grew in the third quarter at the slowest pace in five years prompting the government to announce a stimulus plan of four trillion Yuan ($586b). The World Bank is predicting 7.5% growth for '09, slow for China but faster than anywhere else. We sold Suntech Power in China.

Russia was the worst large global market, down over 70% with the plunge in oil prices. In addition to the global situation, there were a number of Russia-specific issues (mostly investigations into certain companies). The 16% fall in the Ruble added to the country's woes after the central bank began a series of small devaluations. Russia's foreign reserves, which are the world's third largest, lost more than 25% of their value. This prompted S&P to downgrade Russia for the first time in nine years.

Stocks in India had their largest decline since 1980, down 64.6%. The oil and commodity price decline has halved inflation from a 12.9% 16-year high in August. The expectation is for interest rates to continue to decline to 3-4% by the end of the first quarter. The reserve bank's benchmark repurchase rate has been cut by 350 bps since October to 5.5% and they have unveiled its own stimulus package which has included tax cuts on cars and other consumer goods.

Oil and raw materials stocks comprise 52% of the Brazil Bovespa which was down 41%, after gaining 44% in 2007. We hold the two largest companies, Petrobras and Vale (formerly CVRD). We anticipate that the stimulus plans will eventually drive consumption and infrastructure spending which should boost materials and energy producers in Brazil and other emerging markets.

Slowing US economic growth reduced demand for Mexico's manufactured products and its market fell 43%, the most in a decade. The US accounts for 80% of the country's exports.

INTERNATIONAL RESULTS AND ACTIVITY

While EAFE Value eked ahead of Growth by 30bps in Q4 (-19.8% vs. -20.1%), Growth outperformed for the year (-42.7% vs. -44.1%). **SCM (-17.5% Q4 and -39.5% 2008) outperformed EAFE (by 248 bps Q4 and 392 bps 2008) and EAFE Growth (264 bps Q4 and 324 bps 2008).**

For Q4, there were only two EAFE sectors that were down merely single digits. (No sectors were positive.) These were Health Care and Telecoms which were SCM's two best sectors as well. The bulk of our outperformance this quarter can be attributed to two factors. First, we were significantly overweight Health Care (24.1% versus 9.4%), the best sector, with outperformance from Novo Nordisk, Roche, Novartis, Teva and Essilor. Second, we were significantly underweight Financials (6.5% vs. 23.9%), the worst sector, with outperformance from Allianz and AXA.

We were equal weight materials but had good stock selection with Syngenta, Air Liquide and BHP. We were overweight Telecoms, the overall best sector, and benefitted by holding KPN and Telefonica. Stock selection in Technology also added to our outperformance, with Nintendo and Nokia. We finish the year with more cash (14%) than we typically hold, 20% at one point, and fewer positions (36), because of the cash. But we all know that these are not typical times!

U.S. RESULTS AND ACTIVITY

SCM (-22.36%) outperformed the Russell 1000 Growth (-22.79%) but underperformed the S&P 500 (-21.94%) slightly. There really was no place to hide in stocks as all sectors declined by double digits. Given the aforementioned record volatility, significant cash positions were the best refuge. We trimmed many of our larger positions especially in the Industrial and Technology sectors in October and sold NII Holdings, Colgate Palmolive and Intuitive Surgical in November. This produced the largest cash reserves in recent history by month-end November. In December we added to previously trimmed positions in Industrial, Technology and Energy (which we had nicely trimmed way back in July). New holdings included Monsanto, Ecolab, Hess and Smith International.

SUMMARY

Everyone is being cautious about the equity markets and that leads to a preference for large cap companies with growth. Quality growth stocks outperform when market earnings growth estimates are falling. Large caps outperform when market volatility is high and credit spreads rise. Bigger companies typically have stronger balance sheets, better credit ratings and access to the credit markets (still), and are typically more diversified by product line and geography.

CHARACTERISTICS*

	SCM US Equity	SCM INTL Equity		SCM US Equity	SCM INTL Equity
P/E 2008	14.0X	13.6X	Yield	1.2%	3.4%
P/E 2009	12.3X	11.4X	PEG 2008	.8X	1.2X
5 Year Growth Rate	17.0%	11.7%	PEG 2009	.8X	1.0X
ROE (LT Gr. Rate)	21.5%	18.6%	Avg. Mkt. Cap.	$45.0B	$52.5B

*Supplemental Information