

PERFORMANCE

	<i>4Q 2009</i>	<i>Trailing 12 Months</i>	<i>3 Years</i>	<i>5 Years</i>
SCM Int'l Equity	5.34%	30.55%	-2.23%	3.76%
vs. MSCI EAFE Growth	4.17%	29.36%	-4.78%	3.65%
vs. MSCI EAFE	2.18%	31.78%	-6.04%	3.54%
SCM US Equity	6.48%	26.38%	-3.59%	0.44%
vs. S&P 500 (total return)	6.04%	26.46%	-5.52%	0.49%
vs. Russell 1000 Growth	7.94%	37.20%	-1.89%	1.63%

Performance is net of fees. Past performance is not indicative of future results. Please see last page for important GIPS disclosures.

When investors look at 2009 equity returns many years from now, they will see great returns but they will not have lived through the turmoil of the financial crisis that preceded the huge rally! The Dow gained 59.3% from its March low but remains 26.4% below its all time high; the Nasdaq gained 78.9% from its March low. The UK's FTSE had its best performance in twelve years, and the German DAX is just short of pre-crisis highs. Thankfully, global government efforts to shore up the world financial system have worked. Consensus forecasts are for a slow recovery but not a return to recession. The big questions remaining are how the economy will fare without additional stimuli, and when and how quantitative easing will be unwound. Consensus is for the status quo until mid-2010. If rates are left near zero for too long, we will likely see inflation. Rising rates could impact the precarious mortgage markets, and should restrain GDP growth. There is also fear that the huge US government deficit will lead to a steeper decline in the US dollar.

Performance in the second and third quarters was driven mostly by investors buying the most downtrodden stocks. In the fourth quarter, more rational heads began to prevail, and investors started to be more discriminating in search of quality and sustainability. This environment should continue and certainly favors SCM's investment style.

NORTH AMERICA

While the S&P 500 had its biggest annual increase in six years, it was not enough to keep this from being the worst decade since "they" started keeping data in 1927. The two bear markets caused by the collapse of the internet bubble in 2000 and the banking crisis in 2008 led to the first negative return decade (-0.99%) with dividends. On price alone (excluding dividends), the 1930's would have been slightly worse. The US is still in a precarious state with the federal deficit reaching and exceeding \$1 trillion in fiscal 2009, where it is likely to remain for quite a while. Unemployment at close to a 26 year high and weaker consumer finances remain hurdles to a sustained up-swing in home sales which would help spur the economy. Homebuyer incentives were extended in November, but expire later this year.

EUROPE

The ECB faces a more difficult challenge than other global central banks regarding the timing of when to raise rates, because it has to contend with sixteen disparate economies using the same currency. Moving too quickly could further destabilize the precarious Greek economy, as well as those in Ireland, Italy and Spain. Moving too slowly could cause significant inflation in stronger countries like Germany. Norway, in October, became the first European country to begin tightening when it raised rates twice in

a row to 1.75% to combat strong growth in private consumption and sharply rising home prices. Europe's unemployment rate held at 9.8%, the highest in more than a decade as jobs were cut even after the economy emerged from the recession. The dispersion among countries is very wide however, with Spain the highest (19.3%) and Austria (4.7%) and the Netherlands (3.7%) the lowest. Unemployment in Germany, the largest economy of the sixteen Euro nations, is 8.1%. European service and manufacturing industries gained some strength in December. While companies are boosting output, the strength of the euro continues to threaten exports.

All this was reflected in the wide range of stock performance with Greece (-22.43%) the worst for the quarter and Norway (+14.88%) the best. Norway's annual return was also the highest (+87%). Finland's (+11.1%) and Ireland's (+12.3%) were the year's worst. As a whole, Europe ex-UK gained 1.6% in Q4, and 32.6% for the year. Of the largest economies, performance was as follows: Spain (+1.3%, +43.5%), France (+2.1%, 31.8%) and Germany (+2.2%, +25.2%). *Note: all performance numbers are expressed in US\$ terms.*

UK

Consumer confidence fell in December (the most in more than a year) with the deterioration of economic expectations in the UK. Holiday spending declined as consumers prepare for higher taxes aimed at reducing Britain's record budget deficit. Cautious spending is likely to continue into 2010. Value-Added Taxes return to 17.5% from the 15% level of 2009. As everywhere else, unemployment remains a problem at 7.9% but is below the 9.8% euro-region average. The Exchequer boosted borrowing in December by issuing US\$367 billion of bonds in the year ending March 2010. Gilt issuance has increased fourfold since the crisis began.

UK stocks outperformed the other major European markets (+7.0%) in Q4, and were very strong for the year (+43.3%).

JAPAN

The euphoria over the newly elected government faded quickly, as did hopes for structural economic reforms. The rising yen (at a 14 year high versus the US\$) made Japanese goods less competitive abroad and combined with the global crisis, caused a collapse in exports. Deflationary concerns persist. Japanese GDP is forecasted to contract (-5.4%) in the year just finished, more than that for Europe (-4.2%) and the US (-2.7%) according to the IMF. The new Prime Minister, Hatoyama, unveiled his first stimulus package in December for Y7.2 trillion (US\$81billion) which included employment subsidies, loan guarantees and incentives to buy energy-efficient products. But the 2010 budget released later in the month failed to address deficit reduction issues. There were no consumption-tax increases or deregulation to boost productivity. The shrinking population exacerbates all of the issues with more than 20% over age 65. At least demand for Japanese goods from China and the rest of Asia should keep the country from sliding back into recession.

Japanese stocks continued to lag and declined -2.76% for Q4, and returned only +6.25% for the year.

EMERGING MARKETS

Brazil's prudent policies of taming inflation and raising reserves in the years before the meltdown helped the country not only survive, but prosper. It has lowered its export dependence on the US in favor of China which prevented economic contraction. Strong energy and commodity prices helped Vale (+145%) and Petrobras (+100%) sky-rocket this year, and the two comprise 40% of the Bovespa index which soared 128% in 2009, the globe's best performer. Indonesia, Russia and India were the

other global markets that breached the 100% level for the year. China and Mexico were "left in the dust", up "only" 62.3% and 56.6%, respectively. But Mexico had the best Q4 at +13.7%. Brazil (+12.9%), Russia (+10.5%) and China (+9.6%) followed. India (+7.7%) and Indonesia (+5.1%) lagged the MSCI 8.6% quarterly return for the emerging markets.

China was able to spur domestic demand to maintain its growth. As in the past, it relied on exports, which fell sharply in 2009. The Chinese were quicker to respond to the global meltdown and the trough of their market occurred in October 2008, instead of March 2009. India and Indonesia also fared well with their domestically driven economies which were well insulated from the external collapse of trade. Both countries' elections in 2009 also inspired confidence. Domestic consumption will continue, but inflation risks are in the spotlight as we move into 2010.

CURRENCIES

The US Dollar rallied 4.8% in December versus a basket of currencies, off its lows of the year, to end the year down 5%. US economic data released late in the year that beat expectations, set against credit issues in countries like Greece and Spain sparked the rally. As the global economic crisis peaked in March, so did the Dollar, up 9.7%. But as governments injected stimuli into the system, global investors became less risk adverse causing the US\$ to fall 16.7% from peak to trough. The Yen rallied 3.5% in Q4 to finish +2.4% for the year. The Euro lost 2.5% for the year (+2.2% Q4) while the Pound lost 10.6% for the year (-0.9% Q4).

INTERNATIONAL RESULTS AND ACTIVITY

After two quarters of underperformance, EAFE Growth came back this quarter (+4.17%) versus EAFE Value (+0.28%) as it appears investors are beginning to be more discriminating. But EAFE Growth was behind for the year (+29.36% vs. +34.23%) after the prior two bizarre quarters. Finally large caps (+2.61%) beat mid (+0.08%) and small (-1.03%) but lag both for the full year (1542 bps versus small!). We hope that this quarter starts a trend since we are large cap and growth.

All sectors were positive this quarter except Financials (understandable after the sector's crazy outperformance the past two quarters) and Technology. However, SCM had negative performance only in Financials-matching the index return, but since we remain underweight the sector we had positive alpha. Our highest alpha was, again, Consumer Staples where we were overweight and had almost double the sector performance thanks to our emerging market positions in Wal-Mart de Mexico and Femsa, as well as Nestle. We added alpha in all sectors except Materials, where we only lost a few bps and that was the best performing sector for SCM and the index. Our stocks outperformed but we were slightly underweight. On an absolute basis, SCM sectors outperformed all of the index sectors except Industrials, where we were only behind by 39bps. We are overweight Healthcare, Staples Energy, Technology and Telecom; underweight Materials, Industrials, Discretionary, Financials and Utilities. Turnover was a modest 38% for the year, highlighting the conviction we have in our holdings. We have 46 positions and 4.1% cash at year end. 20% of the portfolio is invested in the Emerging Markets (our Teva position is no longer considered emerging since Israel is graduating to a developed market).

U.S. RESULTS AND ACTIVITY

After strong double digit returns for equities in the second and third quarters as the markets shot upward from the depths of the financial crisis in March, the fourth quarter of 2009 posted solid returns: SCM's performance (+6.48%) edged that for the S&P 500 (+6.39%) and lagged the Russell 1000 Growth Index

(+7.94%). For the full year SCM essentially matched the S&P 500 (+26.40% versus +26.46%) but trailed the Russell 1000's stellar 37.20% gain for 2009.

Our disappointing relative results stem mostly from two sources, a smaller capitalization bias within both indices and low-priced/high beta issues. Stocks with higher risk and volatility characteristics, such as financial or deep cyclical companies, outperformed higher quality issues in terms of valuation, profitability and growth prospects. The stocks that fared the worst in the market meltdown surged the most; e.g., the smallest 100 stocks in the S&P 500 outperformed the largest 100, +86.1% versus +19.9% in 2009!

The "bill" for 2009 is coming due, and following the junk rally and expansion of multiples through much of the year, history points to a return to a focus on more traditional valuation measures and achievability of forecasted earnings.

SUMMARY

SCM continues to have a long term perspective, which is sometimes tricky and has been tested many times lately! It seems that the high-beta, low quality trade has run its course and as the Fed and other central banks begin their exit strategies from monetary easing policies sometime in 2010, quality should prevail. The OECD is forecasting global growth to be 1.9% in 2010 (revised up from 0.7% six months ago) and 2.5% in 2011. So there will continue to be growth in the world. As has always been our policy, we invest in high quality, large cap equities with positive sustainable earnings that meet our quantitative guidelines that have been in place (with some updating and modification) for more than twenty years.

CHARACTERISTICS*

	SCM US Equity	SCM INTL Equity		SCM US Equity	SCM INTL Equity
P/E 2009	21.1X	17.4X	Yield	0.8%	1.9%
P/E 2010	17.9X	14.4X	PEG 2009	1.5X	1.3X
5 Year Growth Rate	13.8%	13.7%	PEG 2010	1.3X	1.1X
ROE (LT Gr. Rate)	19.3%	17.6%	Avg. Mkt. Cap.	\$54.1B	\$65.2B

*Supplemental Information

SCM is an independent registered investment advisor. The SCM US Equity Composite contains fully discretionary domestic equity accounts. The SCM International Equity Composite contains fully discretionary international equity accounts. Returns are calculated in U.S. dollars. Past performance is not indicative of future results. Performance results are total return including the reinvestment of all income. This presentation should be read in conjunction with the full disclosure presentation. Please contact us to receive one at 203.252.5700. SCM claims compliance with the Global Investment Performance Standards (GIPS®). For comparison purposes the SCM US Equity Composite is measured against the S&P 500 and Russell 1000 Growth indices, and the SCM International Composite against the MSCI EAFE and MSCI EAFE Growth indices.