APRIL 13, 2012

"Take calculated risks. That is quite different from being rash."
- George S. Patton

Dear Investor,

The first quarter of this year picked up where the final quarter of 2011 left off. As we anticipated in our 4Q11 letter, the equity markets have continued a strong performance in lockstep with improving economic data. Despite some movement, interest rates remain low and commodity prices are manageable, though not predictable. In short, the past six months have been a favorable backdrop for equity investments, and our portfolios have appreciated considerably over that time, in part due to our conviction that last year's summer and early fall stock market weakness was an overreaction.

Perhaps it is our only similarity to Patton, but we believe risk taking should be calculated, not rash. Notwithstanding our long-term belief in equity investing, all investments involve some form of risk. We believe a focus on this risk is fundamental to sound investing. This begins with buying shares in companies with strong positions in great businesses, high free cash flow yields, and competent management – and buying at a compelling valuation. Come what may in the market, these factors will generally lead to positive results over meaningful periods of time.

During the past quarter, we made several new investments that reflect our philosophy of risk/reward analysis. A bank, a life insurer, and an auto parts manufacturer – if purchased when valuations were high, expectations higher, and financial leverage still higher – could have been a toxic combination of risk and loss. However – if these same companies are well-managed and financially secure, if they have de-risked their businesses after several years of financial turmoil, and if the equity shares can be bought for far less than their intrinsic worth – then we believe they will prove to be highly favorable investments.

Here are a few points to consider:

SunTrust Banks

SunTrust (STI) is the ninth largest bank in the U.S. It is a classic regional commercial bank, which means it experienced all the good, the bad, and the ugly of the banking industry in the last decade. We consider its position in the demographically strong Southeast to be an asset, but that has also meant a high exposure to the housing bubble and its subsequent bust (the bad). The problems were compounded by a high rate of defective documentation, which meant the company had to re-purchase previously sold mortgages that defaulted (the ugly). That being said, at the time of our purchase SunTrust was a strong and strengthening franchise, closer to the end than the beginning of its well-known mortgage issues, had repaid TARP completely, and had several initiatives to improve efficiency, profitability and dividends (the good). More importantly, we were able to buy shares at just 58% of stated book value (85% of tangible book value) despite a conservatively estimated 10% return on equity that should improve over time (the great).

MetLife

MetLife (MET) is the one of the oldest, largest, and best known insurance brands in the country – and increasingly the world. While not immune to the financial crisis (they originated and/or invested in sub-prime mortgages and derivatives), they remained adequately capitalized, did not need TARP funds, and in fact were able to take advantage of weaker competitors (for example, buying AIG's international life insurance business). While life insurers (including those with a broader mix of business, like MET) have somewhat opaque financials, the basic business of writing policies based on actuarially conservative principles, and then investing the float until the required payout, is a profitable and time-tried concept. MET's other businesses, including annuities, are generally fee-based with little to no risk for the insurer itself. Demographic trends and the desire for stable investment outcomes should continue to drive an increasing demand for annuities and other retirement products.

Partly because of lingering fears of a global financial collapse, and partly because of the historically low interest rates MET can earn on their investment portfolio today, we were able to purchase shares at a discount to tangible book value (78%) and under 7x current earnings. We consider this highly attractive in the face of the growing momentum in their domestic retirement segment and international businesses, an anticipated return of capital to shareholders through increased dividends and buy-backs[1], and an eventual rise in market interest rates.

Johnson Controls

Founded in 1885, Johnson Controls (JCI) is a company with a long legacy of prudent management and strong investor returns. Today, the business is equally divided between auto interior, auto batteries, and building efficiency. In each segment, JCI is the market leader and is experiencing secular tailwinds. In automotive interiors, JCI is the technology and market share leader in seating and is enjoying the tailwind of production volume recovery in developed markets and strong growth in emerging market auto production. (China is now the largest automobile market by volume and JCI holds an approximately 40% market share.) In building efficiency, JCI is the largest player in the commercial retrofit market where the push for energy efficiency is driving global demand. In automotive batteries, JCI is by far the largest supplier of batteries to both original equipment manufacturers and the aftermarket. They are currently the only supplier with the capital to invest in increasing production of advanced lead acid batteries demanded by automakers for the heavier electronics loads of today's vehicles and to enable fuel efficiency technologies like Start/Stop ignition systems. (Please see the appendix for a further discussion of the battery opportunity.)

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[1] Recently, MET was prohibited from returning capital after they "failed' the Federal Reserve's stress test. MET was included due to a legacy subsidiary bank that is being sold and whose banking activity has been discontinued. The Fed was stuck fitting a square peg in a round hole in testing MET for its ability to withstand "runs on the bank" that are impossible in a life insurance business. (All of your customers do not decide to die together on the same day.) We expect MET to apply for, and be approved to, exit banking sometime this year.

Owing to worries about a European meltdown, a slowing Chinese economy and the unseasonably warm winter (which was not good for replacement battery demand), we were able to purchase shares of Johnson Controls at less than 12x our estimate of 2012 earnings. We think that earnings will grow at 15% per year over the next several years.

In addition to the above new investments, we purchased shares of Republic Services Group (one of the two national waste haulers in the U.S.) shortly after the close of the quarter. (Please see the Appendix for further discussion.)

Firm Update

We are pleased to announce that, effective April 16, Cindy Starke will join our firm as a Principal. Cindy has over 20 years of experience as a research analyst and portfolio manager, most recently with Barrett Associates, and previously with Victory NewBridge and its predecessors. Cindy was introduced to us by a friend of the firm and, after multiple conversations over several months, we found her to be an independent thinker with excellent analytical capabilities. Cindy's background and interests overlap with, but also expand, the core competencies and experience of our team. We look forward to a long partnership with Cindy.

Conclusion

While we had conviction and therefore have enjoyed the stock market returns over the past two quarters, we are neither immune to nor ignorant of the laws of gravity; the significant gains of these last two quarters mean that the ability for further strong short-term appreciation may be limited. Eventually, additional gains may be fueled by increases in corporate top-line revenues (in contrast to the cost controls and share repurchases of the last few years) and/or a return of enthusiasm for stocks by the investing public. We believe that both will materialize in due course, but neither imminently. This is not a call to exit the markets, but a realistic assessment of current conditions. Investment returns in stocks have always come from a saw-tooth type movement in share prices – and the timing of these movements is never reliably predictable.

Unfortunately, this year will likely feature a significant display of the inadequacies in our political system and political leadership; and Europe remains even more challenged. Real economic impact may result from political action and/or inaction over that time. Our role, as advisor, is to determine which events or news items affect the true intrinsic value of our portfolios and which may temporarily affect current prices. In the days of 24-hour media, rapid-fire trading and a financial panic that feels like yesterday to most investors – it is easy to see how stock prices may be temporarily affected even when values have not changed.

We continue to hold (and find new) shares of companies with measurable and tangible value. With patience, we believe our portfolio will continue to grow even if the economy remains tepid - and will increase substantially as conditions continue to improve.

Sincerely,

Spears Abacus

Appendix

Republic Services Group

Early in the second quarter we purchased a position in Republic Services Group. Underlying this investment is an observation that the consolidation of landfill capacity under the ownership of Waste Management and Republic Services (which together own more than 50% of U.S. permitted capacity) has brought pricing discipline to the waste industry. In simple terms, Waste Management and Republic Services realize that they hold a finite resource and that they are best served maximizing the price at which they sell each cubic yard. Since disposal is the largest cost of any local waste collection operation, landfill price discipline trickles down through the industry.

Influencing the timing of our purchase is a belief that volumes, which have declined for the past five years, are set to resume growth and that price will also move higher. On the volume side, general economic conditions have steadily improved and continued economic growth will provide a tailwind to waste growth. More importantly, there are many signs of an improvement in construction activity. This has not yet manifested in construction and demolition waste volumes, which accounted for 10 percentage points of volume decline as the housing market collapsed, but we expect that a modest recovery in construction activity will provide an increase in volume over the next few years. Increased volume should also bring firmer pricing (in addition to the CPI escalators in many of their current agreements). Finally, if a volume inflection is delayed by an unforeseen economic event, we are being paid to wait. Republic Services is committed to returning free cash to shareholders and currently pays a 3% – and growing – dividend and is an active acquirer of their own common stock.

Johnson Controls – Battery Opportunity

In the body of the letter, we highlighted our conviction in Johnson Controls based on the company's leading market position in its three business segments, each of which is facing secular growth opportunities. According to our analysis, one opportunity in particular stands out: advanced lead acid batteries.

Electrification of the automobile powertrain will almost certainly occur at some point in the future (JCI is a major player in this technology as well), but this transition is being delayed by technologies that are currently being applied to internal combustion engines to yield improvements in fuel efficiency. One such technology is called Start/Stop. Start/Stop technology enables a combustion engine to shut down when a vehicle is idling, such as at a traffic light, and then restart when the driver pushes the gas pedal. Depending on driving conditions, this can yield up to a 10% reduction in fuel consumption and tailpipe emissions. However, this technology does expose the battery to more frequent and deeper discharge cycles necessitating a more capable battery. Alternative battery chemistries can be used to address this power demand, but at present advanced lead acid batteries offer a more cost advantageous solution and appear to be the preferred technology for most major automobile manufacturers.

To date, demand has come almost exclusively from Europe where advanced lead battery penetration of new vehicle production is expected to exceed 50% in 2012. But, this appears to be limited by production capacity and North American demand for advanced lead acid batteries is expected to increase owing to the launch of Start/Stop and the continued electrification of vehicle systems (i.e., navigation, power mirrors, heated seats). While this will cannibalize their existing lead acid battery business, this represents a huge opportunity for Johnson Controls as advanced lead acid battery unit sales are expected to quadruple by 2015 and carry a 2x price premium to a standard lead acid battery. Johnson Controls has a 35% market share, 4x larger than their next closest competitor. Strong relationships with most of the major OEMs and aftermarket participants would likely be enough to secure a strong position in this product cycle. However, Johnson Controls also has a tremendous advantage in terms of access to capital that we believe will allow them to maintain their current approximately 80% share of the advanced lead acid battery market for a number of years. To put this advantage in perspective, Johnson Controls expects to spend approximately $520 million, or more than 2x the market cap of its next largest competitor, over the next four years to increase advanced lead acid battery production.

We believe that this product cycle will drive revenue and margin growth in Johnson Controls for a number of years as original equipment penetration increases and the more profitable aftermarket begins to develop.

Spears Abacus BeeHive Fund Performance (Net)

2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-2.87%	3.48%	4.59%	0.98%	-7.92%	-4.41%	5.38%	-3.75%	8.77%	4.97%	-0.47%	8.55%	16.90%
S&P 500	-3.60%	3.10%	6.03%	1.58%	-7.99%	-5.23%	7.00%	-4.51%	8.92%	3.81%	0.01%	6.68%	15.06%

2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	0.09%	4.57%	1.11%	3.65%	-1.72%	-1.83%	-3.73%	-8.55%	-7.71%	11.38%	-0.94%	0.02%	-5.10%
S&P 500	2.37%	3.43%	0.04%	2.96%	-1.13%	-1.67%	-2.03%	-5.43%	-7.03%	10.93%	-0.22%	1.02%	2.11%

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	6.28%	4.00%	1.31%										11.98%
S&P 500	4.48%	4.32%	3.29%										12.59%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	5.69%
S&P 500	5.09%

Spears Abacus Municipal Bond Performance (Net)

2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	0.66%	0.60%	-0.09%	0.59%	0.41%	0.33%	0.85%	1.38%	-0.33%	-0.29%	-1.26%	-0.87%	1.98%

2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	-0.31%	1.61%	-0.26%	1.19%	0.98%	0.13%	0.80%	1.23%	0.47%	-0.14%	1.46%	1.76%	8.09%

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	1.09%	-0.56%	-0.14%										0.39%

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SA Municipal Bond Performance

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