OCTOBER 10, 2013

"Americans will put up with anything provided it doesn't block traffic."

- Dan Rather

Dear Investor,

It is a simple fact that markets are subject to "melt-ups" just as often as they are to "melt-downs." So far, 2013 has been a very strong year for the equity market as measured by the S&P 500. We are pleased to report it has been an even stronger year for our portfolio holdings, especially during the third quarter. As we predicted in our second quarter letter, the immediate fear of higher interest rates subsided providing an excellent backdrop for our stocks. But today, our enthusiasm is tempered by a growing unease.

It has been a much better year for equity shares than it has been for corporate profits. While third quarter profits have not been officially disclosed, it is estimated that earnings this year for the S&P 500 companies will grow by a little more than 5%. While this is not trivial, S&P 500 share prices have risen by nearly 20%. The mathematical truth is that price to earnings multiples have expanded. In other words, investors are paying more for a dollar of earnings.

Those who are regular readers of our letters know that we have argued, given prevailing low interest rates and subdued inflation, that stock valuations were too low during the last five years. Investors discounted earnings due to both rational and irrational fears of further economic shocks or market crashes. This fear, in our opinion, was misplaced given the after-crisis profiles of most companies in the portfolio - clean balance sheets, dominant market positions, steady growth and low valuations. Now, much of this discount has vanished as multiples have expanded along with the share prices.

There are generally two rational reasons for multiple expansion.[1] One is that investors use a lower rate to discount future cash flows. The other is that investor expectations of future earnings growth increases. The past two years are likely a reflection of both. Despite a zero interest rate policy, stock earnings were still discounted using a high rate for much of the last five years. This was partly a recognition that the near zero rates were unsustainable, but also a recognition of investors' need for a higher risk premium given the sharp volatility of stocks during the crisis. In addition, earnings have continued to increase and stock markets have begun to assume a stronger economic situation and therefore stronger future earnings growth.

[1] Irrational reasons usually relate to stock manias and bubbles during which stocks are purchased simply because they are expected to rise more with no regard to the multiple.

SPEARS ABACUS

147 EAST 48TH STREET, NEW YORK, NY, 10017 SPEARSABACUS.COM
T 212-230-9855 F 212-230-9861

As we discussed in our second quarter letter, based on the language from the Federal Reserve in June, the market sensed an imminent increase in interest rates due to improving economic data. Then in September, based on the actual actions of the Federal Reserve, the market learned that rates would indeed not rise absent significant economic improvement. In other words, rates are not likely to increase unless the conditions for improved earnings exist. And, if earnings growth remains steady but tepid, interest rates should remain benign, and therefore multiples will be supported for some time.

Our Portfolio

We made several changes to the portfolio during the third quarter, including the addition of three companies with what we believe to have excellent return potential.

Citrix Systems

Citrix has long been dominant in remote access computing. As system architecture continues to move to the "cloud" and mobile devices proliferate, Citrix's leading market position presents a tremendous opportunity for growth. A recent underperformance in the stock (due to short-term factors) presented an excellent investment opportunity in a growth segment of technology.

Pentair

Pentair is a global participant in the market for water and fluid infrastructure and management. As a result of last year's merger with Tyco Flow Control, Pentair's management is targeting cost savings that we believe will fuel strong earnings growth, even without acceleration in the company's end markets.

Trimble Navigation

While not a household name, Trimble is a leader in advanced location-based technology solutions for the architectural, engineering, agriculture and construction industries. Its technologies (which combine GPS, laser and optical solutions with software and communication networks) allow greater efficiency and productivity, and therefore profitability, to their global customer base.

Please see the appendix for a more detailed explanation of our Pentair, Citrix, and Trimble investments.

We also sold two holdings, both for significant gains and due to valuations that had exceeded our analysis of their potential.

Broadridge was a long-time holding whose stock price, frankly, did nothing for much of that time. However, our work continued to conclude that management was skillfully guiding the company through a difficult environment for their business and that shares remained under-valued. Their dominant position in a niche industry and strong cash generation was finally recognized by the market, and the stock returned nearly 40% (including dividends) in the 12 months prior to our sale. As the value was recognized by the market, we took our gains and invested the capital in new investment opportunities.

As discussed in the last two quarterly letters, our investment in Boeing appeared star-crossed due to unforeseen headline events. However, the actual investment was a success and basically went straight up. In the less than nine months that we owned the stock it gained over 40%. During the third quarter we sold the investment to realize this gain and reinvest the capital. It is unusual for us to realize our investment thesis so quickly. In this case, Boeing was still subject to headline risks, and commercial aerospace will always be a cyclical business. Our analysis, given the increase in the stock price, pointed to a future balance too much in favor of risk and away from reward.

Concluding Thoughts

While Dan Rather's cynical quote about the American public is perhaps extreme (although we all hate traffic jams), it is still surprising to us how apathetically the general public is reacting to the complete recklessness of the political class. Stalemates, political opposition, intractable positions, partisanship and even civil war are not new to this nation. Government shut-downs are also not new and have generally had very little fallout other than political costs. In fact, the current budget showdown and government shutdown do not factor much into our long-term investment analysis. What does indeed concern us is the complete lack of compromise on the table, and the impending debt ceiling deadline which will require either compromise or capitulation – and neither seems likely. This will have a direct impact on capital markets. While we believe actual default to be a low probability risk, we remain very aware of the potential threat.

Our conclusion is that the recent advance in stocks is sustainable in the long run. Unfortunately this does not eliminate the risk of price swings caused by changing facts or emotion; both of which we have seen just in these few days since the third quarter ended. It also does not lead us to conclude that the general stock market will see additional large and broad advances in the near-term. We do believe that there continues to be an excellent opportunity for the fundamentally driven stock picking analysis we employ.

Sincerely,

Spears Abacus

Appendix

Citrix Systems (CTXS)

Citrix is a software and cloud computing company that has evolved over the past decade from a business focused on enabling remote computer access to a company that offers a wide spectrum of technology products that support a growing mobile workforce. The world's knowledge workforce increasingly requires access to corporate data on multiple devices anywhere and at any time. Providing this presents new infrastructure and security challenges for corporations of all sizes and creates a much larger opportunity for Citrix. Citrix's mobility, desktop virtualization, cloud networking, collaboration and data sharing products are well positioned to address this large market (estimated to reach $15 billion by 2015).

Investors are focused on the rate of growth in the company's leading desktop virtualization products (XenDesktop and XenApp), and Citrix shares have tread water this year as license growth for these products has slowed. Our research suggests that declining storage costs are rapidly improving the return on investment for desktop virtualization and that this will ultimately result in a reacceleration in this business. However, we also appreciate that Citrix has assembled a diversified lineup of compelling products that will support low-teens annual revenue growth and mid-teens EPS growth over the next few years.

A material increase in the rate of penetration of desktop virtualization, which we believe is a question of when, not if, would represent additional upside to our base case earnings estimate and likely be accompanied by P/E multiple expansion.

Pentair (PNR)

Pentair is a participant in the global market for water and fluid infrastructure and management and nearly doubled its size last year through its reverse merger with Tyco Flow Control. Management expects material cost savings as a result of this merger and has laid out detailed plans for achieving these synergies, though investors remain skeptical. We believe Pentair will realize, if not exceed, their targets because our research shows that: 1) synergy goals are informed by detailed planning, and integration is being overseen by a dedicated team, 2) cost savings of $195 million represent ~2.5% of total company revenue, which does not seem ambitious in the context of other completed mergers of industrial companies (often ~5% of sales), and 3) execution to date has been great, with synergy goals being increased or pulled forward twice since the deal was announced.

Success in delivering these savings, as well as executing on other factors within management's control (e.g. share repurchase) will deliver healthy earnings growth over the next three years and, we believe, will improve investor perception of management quality, both of which should drive shares higher. While we assume that economic growth continues, acceleration would only represent upside to our expectations.

Trimble Navigation (TRMB)

Trimble Navigation is a leading provider of advanced location-based technology solutions used by professionals and mobile workers to improve their work processes. Originally, Trimble was known for its hardware products that utilized global positioning system (GPS) technology. Trimble has evolved its offerings to combine technologies including GPS, laser and optical sensing with application software and wireless communications to provide complete commercial solutions. This allows Trimble's customers in agriculture, engineering, construction and transportation to collect, manage and analyze complex information at a much faster pace, enabling them to be more productive, profitable and competitive.

One such example is steering systems that guide tractors through the field to ensure that crops are planted in straight rows with uniform spacing. Looking forward, the company has many opportunities for growth across their business segments and has several underpenetrated opportunities to exploit in both the US and Internationally. In addition, Trimble is selling more software, subscription and service products, which should have a positive impact on margins going forward.

We believe that Trimble is well positioned to outperform the market over the next few years as they combine strong double digit sales growth with operating margin expansion and an attractive valuation.

Spears Abacus BeeHive Fund Performance (Net)

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%	-2.24%	-8.30%	3.95%	0.65%	3.40%	2.67%	-2.08%	0.97%	1.10%	11.50%
S&P 500	4.48%	4.32%	3.29%	-0.63%	-6.01%	4.12%	1.39%	2.25%	2.58%	-1.85%	0.58%	0.91%	16.44%
2013	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**YTD**
The BeeHive Fund	5.28%	-0.09%	3.43%	1.28%	3.87%	-1.78%	6.10%	-1.01%	4.78%				23.70%
S&P 500	5.18%	1.36%	3.75%	1.93%	2.34%	-1.34%	5.09%	-2.90%	3.14%				19.79%

Trailing 12 months 9/30/13)	
The BeeHive Fund	23.66%
S&P 500	19.34%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	8.32%
S&P 500	7.94%

Spears Abacus Municipal Bond Performance (Net)

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%	0.74%	0.41%	0.11%	0.89%	0.20%	0.42%	0.13%	0.41%	-0.41%	4.06%

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	0.09%	0.12%	-0.09%	0.48%	-0.56%	-1.15%	-0.20%	-0.46%	1.08%				-0.70%

Important Note About Spears Abacus Advisors LLC ("SA") Client Newsletters

SA BeeHive Fund Performance Information

The Fund performance information shown is for The BeeHive Fund, a series of Forum Funds, an investment company registered under the Investment Company Act of 1940. The BeeHive Fund, which is managed by Spears Abacus Advisors LLC ("SA"), seeks capital appreciation by investing in a concentrated portfolio of companies believed to have dynamic businesses with defensible market positions. The BeeHive Fund invests primarily in equity securities. Performance information for The BeeHive Fund is presented for 2011, 2012 and 2013.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment in The BeeHive Fund will fluctuate so that the shares in The BeeHive Fund owned by an investor, when redeemed, may be worth more or less than their original cost. The current performance of The BeeHive Fund may be lower or higher than the performance data quoted. The gross expense ratio of the Fund for 2012 was 1.04%. SA has contractually agreed to waive fees and expenses through at least April 30, 2014 so that the net expenses of the fund do not exceed 0.99%. Investors who would like to obtain performance data for The BeeHive Fund that is current to the most recent month-end should call 866-684-4915 (toll free).

The performance information set forth indicates the corresponding return of the Standard & Poor's 500 Total Return Index. The volatility of the S&P 500 Total Return Index (as well as any other index used by SA from time to time) may be materially different from the volatility of The BeeHive Fund. In addition, the securities holdings in The BeeHive Fund differ significantly from the securities that are referenced in the index. The S&P 500 Total Return Index has been selected not to represent an appropriate benchmark to compare results but rather to allow for comparison to the performance of a widely recognized index. SA is not responsible for the accuracy or completeness of any information contained here that was obtained from or compiled by third parties.

Investors should consider the investment objectives, risks, and charges and expenses of The BeeHive Fund carefully before investing. The prospectus and, if available, the summary prospectus of The BeeHive Fund, which may be obtained by telephoning 866-684-4915 (toll free), contain this and other information about The BeeHive Fund. Investors should read the prospectus and, if available, the summary prospectus carefully before investing.

The BeeHive Fund is distributed by Foreside Fund Services, LLC.

SA Municipal Bond Performance

Municipal bond performance information is presented for 2011, 2012 and 2013. The account to which this performance relates was developed to meet the needs of Abacus & Associates Inc., a multi-generation family office that serves high net-worth individuals of varying ages, financial circumstances, and states of residence. SA manages many other tax-exempt fixed-income accounts for which individual portfolio securities are chosen based on the specific characteristics of the client. Because it is difficult to compare the performance of these highly customized accounts to each other or to an index, SA believes that it would be misleading to aggregate the performance of these customized accounts. Upon request, SA will present a model portfolio for a prospective client that is closely customized to his or her individual needs. Returns for other SA accounts may differ from the information presented here. While the performance is based upon the securities actually held in the account, the information does not represent a model portfolio of securities.