JANUARY 17, 2012

"Truth is confirmed by inspection and patience; falsehood by haste and uncertainty."
- Tacitus

S/A

Dear Investor,

In our third quarter letter, we wrote that the roughly 20% summer market correction was overdone given that market valuations had already assigned more weight to negative scenarios than positive ones. As it turns out, September 30 marked an absolute low in equity prices for the year, and a high point in panic and fear. Inspection and patience, in our opinion, warranted a more positive outlook. Our expectation that fundamentals would overtake fear was realized by a sharp recovery in equity share prices during the fourth quarter – a recovery that, in our opinion, has further to go.

Consequently, we do not believe that the best performing asset classes last year will continue to provide market leadership. Bond and yield substitutes such as master limited partnerships and dividend-paying stocks with high payout ratios (many with no or slow growth) outperformed during the year. Although greater weightings to such securities might have improved our performance last year, we think most are currently overvalued and unlikely to provide adequate returns going forward.

The flight to safety, combined with trading markets that have grown more volatile and reactionary, resulted in large dispersion among individual stock returns. For example, while the S&P 500 was virtually flat for the year, nearly a third of S&P constituents were down 10% or more. In our portfolio several companies with growing sales and growing earnings – but a narrow shareholder base, or a perceived but unrealized threat to their business – experienced gut-wrenching drops in value. (Please see the appendix for our discussion of Digital Generation and our life science tools holdings). These poorly performing holdings (in terms of share price) will, in our opinion, be the source of future outsized returns.

Our fixed income portfolios and total return accounts benefited from the general rally in yield assets and remain an excellent balance to the recent equity market volatility.

Our Portfolio

We bought Marathon Oil (MRO) early in the fourth quarter. Our entry point proved to be favorable, and our coincident sale of Apache Oil was timely. We continue to believe MRO is a significantly undervalued enterprise. We sold our position in FMC Corp. Much of the undervaluation we identified at our initial purchase in November 2009 has been realized, resulting in a gain in excess of 50%.

SPEARS/ABACUS

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

One other significant portfolio change was a swap of our FedEx shares to a similarly-sized position in UPS. We currently favor UPS's higher dividend, lower capital needs and lower focus on express delivery. (Please see the appendix for a more detailed discussion of various portfolio holdings)

Concluding Thoughts

Following the third quarter decline, our expectations for a market recovery were rooted in a belief that economic activity was moderating, but that compelling share valuations and robust corporate health would generate reasonable future returns. So far, recessionary risk appears to have abated and economic indicators, at least in the U.S., are improving. Yet, investor pessimism remains.

The reasons are widely known: A decade of tepid returns has disaffected stock buyers, volatility scares even long-term investors, and there is a lack of trust in our institutions, leaders, and economic future. The combination of improving fundamentals, low valuations, and persistent investor pessimism are the classic ingredients for very favorable longer term stock returns. We own incredible values, and we are identifying additional ones regularly. We do not need to look at broken businesses, but rather are finding well-managed, well-capitalized, and growing companies that are trading well below their intrinsic worth. The catalysts to unlock this value may be hard to time accurately – but patience will confirm the value that we believe is undeniable, and therefore will inevitably be realized.

Sincerely,

Spears Abacus

Note: The foregoing represents a summarized version of the Spears Abacus client letter, which is available on request.

Appendix

CVS/Caremark

Our patience in holding CVS/Caremark was rewarded this quarter (and year). Data presented at the company's December analyst day provided statistical evidence in support of our original thesis: that the combination of a retail pharmacy and pharmacy benefit manager (PBM) would permit the creation of unique services that improve patient outcomes. As importantly, new business wins suggest that customers are starting to take notice. Despite recent gains, shares are trading at a modest 13x our estimate for 2012 earnings at a time when the outlook is bright owing to business momentum, the coming wave of generic drug launches (more profitable for CVS/Caremark), and potential market share gains from the ongoing Express Scripts/Walgreens dispute.

UPS

During the fourth quarter we swapped our holding of FedEx (FDX) into shares of UPS. The investment case for owning either company is predicated on a steady recovery in the global economy, a more favorable domestic pricing environment, increased penetration of international markets and a rebound in operating margins. Both companies are also direct beneficiaries of the delivery requirements associated with the rapid growth in online purchases. The pricing thesis is clearly playing out and the domestic ground business for each remains strong. FDX's express business, however, which is more levered to the rate of economic growth, is experiencing margin headwinds as recent shipment volumes have fallen short of expectations. With the trajectory of global growth somewhat more uncertain, we believe UPS's greater exposure to domestic ground, together with its less onerous capital spending requirements and stronger free cash flow generation provide greater downside comfort, yet retain attractive upside potential should economic activity surprise positively.

Life Science Tools

A major source of underperformance, and disappointment, for the full year came from our holdings of life science and applied research tools providers, Thermo Fisher and Life Technologies. The uncertainty around government budgets, primarily in the U.S. but also in Europe, impacted current year results as researchers squirreled away previously received funds in anticipation of lean years ahead. Concern also grew about the potential impact of sequestration, which, if enacted, will reduce government agency budgets by about 8% in 2013. We were admittedly caught off guard by the severity of the pullback in spending in anticipation of a major change in funding, but we are not blind to the challenges that face the industry over the coming years. However, we also believe that current valuations, which in our estimation factor in industry stagnation in perpetuity, are overly bearish. Around the world support for scientific research remains strong, underpinning secular growth, and companies in the industry face rational competition, have healthy profit margins and generate significant amounts of free cash flow. Growth in non-U.S. and applied markets, combined with diligent cost controls and use of capital, should allow both companies to generate 8%-12% annual earnings growth over the next few years. We also believe that increased certainty over 2013 U.S. budgets will bring about improved investor sentiment resulting in multiple expansion.

Digital Generation

In the body of our letter we made note of the fact that the general market decline of the third quarter was magnified in smaller capitalization stocks with narrow shareholder bases. We observed this first hand through our holding of Digital Generation née DG Fast Channel, which declined 60% during 2011. Of course, the market is not entirely to blame. During the second half of the year, competition intensified in DG's core television spot delivery business, pushing down pricing for the delivery of high definition spots more rapidly than had generally been expected. This was compounded by a moderation in spot volume, which is in part attributable to the continued disruption of Japanese auto production. DG also completed the acquisition of MediaMind, making it the second largest platform for the delivery and analysis of online rich media content, but also adding debt to what was a debt-free balance sheet. While 2011 gave rise to some concerning data points, we expect that fourth-quarter results will confirm that for the full year DG saw solid organic revenue growth and double-digit EBITDA growth. This, however, is the past, and the market is now focused on the future.

DG shares are currently trading at just 5x our estimate of 2012 profits, indicating that the market has serious doubts about both the outlook for DG's core business, and its ability to execute on the longer-term opportunity to offer a converged platform for the delivery of television and online advertising. As a result, our base case significantly discounts future opportunities and embeds more conservative assumptions. This thesis holds that in the television business material declines in HD pricing will continue in 2012, but the lower price will help to stimulate additional conversion of standard-definition advertisements to high-definition, driving mid-single-digit growth in television advertising revenue and profits. Political advertising should provide an offset in the event that overall spot volume is negatively impacted by economic activity. All indications are that the online side of the business will continue to generate healthy high-teens revenue growth. This revenue growth should be augmented by the realization of acquisition synergies and we expect EBITDA growth of about 20% in 2012. If this conservative base case comes to pass, we believe that our patience will be well rewarded.

Spears Abacus BeeHive Fund Performance (Net)

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-2.82%	-11.62%	7.51%	11.65%	4.43%	3.87%	5.17%	2.97%	2.00%	-1.31%	3.42%	4.37%	31.59%
S&P 500	-8.43%	-10.65%	8.76%	9.57%	5.59%	0.20%	7.56%	3.61%	3.73%	-1.86%	6.00%	1.93%	26.46%

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%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	2.57%
S&P 500	1.79%

Spears Abacus Municipal Bond Performance (Net)

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	2.32%	0.90%	-0.40%	0.71%	0.71%	-0.11%	0.86%	0.53%	1.71%	-0.62%	-0.24%	0.23%	6.74%

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%

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

SA BeeHive Fund Performance Information

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 2010 was 1.22%. The adviser has contractually agreed to waive fees and expenses through at least May 1, 2012 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 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 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 2009, 2010, and 2011.

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.

SA Municipal Bond Performance

Municipal bond performance information is presented for 2009, 2010, and 2011. 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.