

JANUARY 14, 2014

"But even the facts do not always tell the truth."

- Paul Auster, *The Invention of Solitude*



Dear Investor,

2013. It was a year to remember for stock investors; a year to savor; a year that will likely not soon be repeated, even as new money comes to the market hoping for a repeat performance. It was a year where the S&P 500 (including dividends) rose 32.4%, and we are pleased to report our equity portfolios gained even more. The BeeHive Fund (BEEHX) which stands as a good proxy for our equity performance returned 35.12% net of all costs.

That being said, for many bond investors it was a poor year (fortunately we have been positioning bond portfolios for rising interest rates). For holders of gold and other commodities it was even worse. In fairness, a year is an arbitrary period of time. Yet, as we are approaching the five year anniversary of the March 2009 lows, the S&P has gained over 200%, or an annualized return of over 25%. Clearly, stocks have regained some of their luster as solid, long-term stores of value. And a pause or pullback would not necessarily change that fact. Today, we do not see signs of true mania in the broad stock market, and capital flows are just now beginning to return. Economic activity continues to expand and profits generated by the companies in our portfolio continue to grow. Both of these facts will be supportive of stock prices, but may not be the determining factors.

The biggest driver of appreciation in this bull market has been the reduction of perceived risk in stocks, as we discussed in our last quarterly commentary. At the height of fear in 2008 and early 2009, investors demanded huge premiums to own any risk. Today, based on current earnings, investors are still requiring a rational rate of return, but a much smaller margin of safety. The current market earnings multiple reflects assumptions that earnings will at a minimum grow modestly and that the expected return (or cost of capital) is 8-10% (depending on growth expectations), a significantly lower figure than the immediate post-crash years. Neither assumption is bold, but neither is conservative given the uncertain conditions that are always part of investing.

Portfolio Commentary

During the quarter we exited our successful investment in SunTrust Bank. STI is one example of the erosion in the margin of safety. While the bank, and the stock, may continue to perform, we felt it was no longer priced to withstand negative events. In fact, after several components of our investment thesis were realized, it was priced to assume only further positive developments. Our risk/return analysis led us to believe we had better investment opportunities elsewhere.

SPEARS / ABACUS

China and Our Portfolio

In contrast to the U.S. equity markets, one surprise to many commentators has been the extended under-performance of emerging markets, and particularly Chinese shares. Investor sentiment around Chinese equities has vacillated from euphoria in 2007, to despondence in 2008, to indifference by 2013. The Shanghai index was down 4% in 2013 and underperformed U.S. markets by over 35 percentage points (the Shanghai Composite still sits roughly 55% below the 2007 high). We do not invest directly in Chinese listed companies because we believe that the risks associated with uncertain legal, accounting and regulatory guidelines overshadow the opportunity for investment returns. In fact, we believe the dreadful performance of Chinese stocks has more to do with the nature of the stocks and stock market than the larger Chinese economy. Many of our U.S. listed holdings have large and growing businesses in China and the region. So, despite volatility in Chinese equity markets, we believe that China, the world's second largest economy and home to 19% of the earth's population, cannot be ignored as a major player in the global economy. For this reason, we visit the region annually, including last fall.

On two separate trips, members of our investment team met with several local analysts, researchers and the local management of a few of our portfolio holdings. Although much of our focus this time was on the automotive industry, we believe the knowledge we gained has broader applications: 1) due to its scale, China has the potential to be a material contributor to growth for global companies, 2) writing off Chinese competition as low quality and down market may be unwise, 3) the government's influence is far reaching and unpredictable, and 4) Western suppliers that help enable the achievement of government objectives are well positioned. One such supplier in our portfolio is Delphi Automotive. While we did not make our investment in Delphi solely based on their potential in China, our on-the-ground study of Delphi's Chinese operations and of the Chinese auto industry increased our confidence.

Our team authored a larger piece expanding on these themes. If you would like a copy of the paper, please let us know.

Concluding Thoughts

It appears that the great crash of 2008, which was widely predicted to mark the end of 'long-term' buy-and-hold investing, has not. Instead, it has illustrated that over longer periods of time, well-chosen stocks in a properly diversified portfolio can earn the required rate of return (which we generally define as roughly 8% over the inflation rate). Under that premise, we are confident in saying that our portfolio will continue to earn that return over longer periods of time. Unfortunately, we realize that it will not achieve these returns in a smooth or steady manner. Although our crystal ball for short-term stock movements has never worked well, that fact has not materially affected our longer term returns. Today, we see a potential and maybe even likely short-term pullback in many stocks; but we do not see the conditions that would result in a steep and extended fall or crash that generally follows over heated and speculative economies.

We are worried that seemingly everyone is expecting further gain immediately ahead. This is a bearish signal, but not enough of one itself to be a red flag. Sentiment matters, and more positive sentiment about stock investing should be supportive as long as the fundamentals are in place. At least currently, those improving fundamentals are hard to deny. Macro-economic factors continue to improve: job growth remains steady if frustratingly slow, consumer confidence is improved, interest rates remain low, and – more importantly – the stock market seems to be factoring in a measured increase in rates. We continue to manage our portfolios with a focus on the long-term profit growth of our portfolio companies. That emphasis should bring long-term results that at least meet our 8% over inflation benchmark, notwithstanding short-term fluctuations.

We wish you a very happy and healthy 2014!

Sincerely,

Spears Abacus

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%	1.80%	4.26%	2.92%	35.13%
S&P 500	5.18%	1.36%	3.75%	1.93%	2.34%	-1.34%	5.09%	-2.90%	3.14%	4.60%	3.05%	2.53%	32.39%

Trailing 12 months (12/31/13)	
The BeeHive Fund	35.13%
S&P 500	32.39%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	9.72%
S&P 500	9.59%

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%	0.28%	-0.24%	-0.13%	-0.70%

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. 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).

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

This letter and the performance information set forth therein should not be relied upon as investment advice. Any mention of particular stocks or companies does not constitute and should not be considered an investment recommendation by SA. Any forward-looking statement is inherently uncertain and cannot be relied upon as a statement of actual performance. If you would like to learn more about SA and its investment program, please contact us at www.spearsabacus.com.

The performance information presented here is for informational purposes only and contains confidential and proprietary information. Accordingly, this information may not be disclosed to any other person without the express written consent of SA. SA compiled and calculated this information, which has not been reviewed by any third party. The information reflects the reinvestment of interest and other income. The information provided here may not be indicative of the future performance of SA client accounts. Current performance may be higher or lower. None of the information provided here should be viewed or relied upon as a promise or a representation as to future performance. SA makes no representation, warranty, or other assurance regarding the accuracy or completeness of the information contained here.

Please contact SA if your financial situation or investment objectives have changed in any way or if you wish to impose new restrictions or modify existing restrictions on your accounts. You should be receiving, at least quarterly, a statement from your custodian showing transactions in your accounts. SA urges you to compare your custodial statements to any statements that you receive from SA.

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 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.

Risk: The Fund is subject to various forms of risk including the possible loss of principal. Investing in foreign securities entails risks not associated with domestic equities including economic and political instability and currency fluctuations. Investing in fixed income securities includes the risk that rising interest rates will cause a decline in values. Concentration in particular industries or market sectors can cause increased volatility and market risk than more broadly diversified investments. Investments in securities of small- and mid-capitalization companies involve the possibility of greater volatility than investments in larger capitalization companies. Investments in American Depository Receipt involve many of the same risks as investing in foreign securities. Please see the prospectus for a more detailed explanation of these risks.

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.