JANUARY 15, 2015

Dear Investor,

In 2014, 90% of equity managers and funds underperformed the S&P 500. According to some, this is a sign of the futility of active management; we see it differently. The message that this singular piece of data is sending is that in 2014 there were few opportunities to earn superior returns. The best returns were concentrated in a relatively small number of very large companies, generally based in the U.S. The S&P 500 (few in number of issues and large in market capitalization) was the top performer. So called mid-cap stocks, greater in number, smaller in size came in second. Followed by small-cap, then micro-cap. As has been the case every year since 2008, U.S. investors were better off staying at home than venturing overseas. Overseas markets, whether developed or emerging, had negative returns when translated into dollars. In the fixed-income world, long-term bonds (both taxable and tax-exempt) produced high returns, but other sectors offered only middling results. Commodities were a disaster.

The year was shaped by three significant forces: two major surprises (oil and U.S. interest rates) and the existing triple-zero economic environment (0% interest rates, 0% inflation, 0% global growth – an exaggeration, but only a small one). Triple-0 has been the economic status quo since the financial crisis. Thanks to super accommodative central bank policy around the world, there is a huge amount of money sloshing around the system looking for a home. In 2014, the portion that found its way into stocks, sought out those companies that were most likely to produce some earnings gain, even in a slow growth world. A relatively small number of very large U.S. based companies have played the role of "best house in a bad neighborhood."

A year ago, no one doubted that U.S. rates would rise from then current levels (the 10 year U.S. Treasury stood at 3.03%). The only question was how soon and how strongly would the market react to the end of quantitative easing by the Federal Reserve (the word "tapering" took on a new meaning). Banks and other financial services companies that stood to benefit from higher rates had already advanced in anticipation of what was clearly inevitable. Likewise, businesses that depend on low rates, such as real estate, saw their stock prices languish in 2013. Surprise! Interest rates went down instead of up. Bank stocks were underperformers in 2014; Real Estate Investment Trusts had huge returns. It turned out that tapering was not the central plot line after-all. The key driver of U.S. interest rates was the wall of foreign money seeking higher returns than those available at home. The dollar surged to multi-year highs versus virtually every foreign currency. The narrative has changed; the current consensus is that Triple-0 means that interest rates around the world, even in the U.S. will stay low for a far longer period than anyone expects. Under this scenario, the U.S. economy finds itself in a virtuous circle of slow but reasonable growth, low interest rates and

continuing capital in-flows fueled by a strong currency. The accepted wisdom is that our stock market will continue to be the world leader.

The precipitous drop in the price of energy in the second half of last year caught investors by surprise. Much was written about the boom in U.S. oil and gas production, but there was an evident complacency about prices. Crude oil spent most of the last three years trading between $90 and $105 per barrel (for benchmark West Texas Intermediate or "WTI"; North Sea Brent was generally $10-20 per barrel higher, but just as stable). The market price stasis masked an atypical bubble in energy. Thanks to new drilling technologies there was a "black-gold" rush in the shale formations of North Dakota, Texas, Colorado and Pennsylvania. At the same time (though less prominent in the press) there were major discoveries off the coasts of Brazil and Israel. Significant sums were borrowed to fund new wells. Since the peak in June, WTI has dropped from $106 to below $50 per barrel. Stock prices in virtually every corner of the energy sector have gone along for the ride. Drilling plans are being postponed or cancelled. Not all debts will be repaid. Eventually, prices will stabilize and even rise. It will be extremely hard to predict when that will occur.

Unless you live in oil country, all is not gloom and doom; for many, there are some very positive side effects. Money saved at the gas pump, can be spent in other more pleasurable ways. Industries that count energy as a significant operating cost (airlines for instance) are seeing a positive impact to the bottom line. In energy producing countries like the U.S. this is a trade-off: bad news for some, good news for others. For Europe and Japan, lower energy cost is an unalloyed positive. Household budgets might get a little less tight; companies with unexpected profits may return to hiring new employees. Perhaps the big surprise for 2015 will be that one or even both of those economies finally show signs of sustainable recovery.

Our Portfolios

Given the large gains of 2013, we were pleased to have continued the growth of the portfolios; and indeed we were much more circumspect entering the year. It is likely that U.S. stocks are entering a more speculative stage where many issues are being driven by higher expectations of future earnings, rather than the mispricing of current earnings that drove the early years of the bull market. These tend to be the types of markets that end in disappointment for those who become overly optimistic or aggressive.

After years of multiple expansion, we are at a place where our valuation work is of increasing importance. We believe that we still hold a portfolio of compelling investments, but are finding that new opportunities are fewer and farther between.

Concluding Thoughts

Our view of the arrival of higher interest rates in the U.S. is more *The Iceman Cometh* than *Waiting for Godot*. We cannot predict timing, or even the near term direction (a cogent case has been made that U.S. rates could drop again this year). The U.S. economic picture is bright

and getting brighter. At some point this will lead to higher rates. Like the arrival of Hickey in Eugene O'Neill's classic, this is likely to lead to unpredictable results and maybe even some short-term turmoil. Experience has taught us that as market volatility increases the best course of action is to focus on being investors in good businesses that can adapt and even prosper in an evolving environment. We see no reason to make wholesale changes in order to attempt to squeeze a small incremental return. Trying to time shifting market sentiment is more likely to add to portfolio risk than to marginally enhance return. This is even more the case for taxable investors. After six years of very strong equity returns, embedded gains mean there is a real cost of changing course or jumping on a new bandwagon. The tax payments would be certain; the investment results not necessarily so. As always, for both taxable and tax-exempt clients we will continue to make changes at the margin, but in the main, we have a great deal of confidence in our current portfolio.

Regards,

Spears Abacus

Spears Abacus BeeHive Fund Performance (Net)

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%

2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-4.22%	4.86%	0.00%	-0.36%	2.83%	3.67%	-3.07%	3.73%	-3.86%	2.40%	2.82%	-0.65%	7.87%
S&P 500	-3.46%	4.57%	0.84%	0.74%	2.35%	2.07%	-1.38%	4.00%	-1.40%	2.44%	2.69%	-0.25%	13.69%

Trailing 12 months (12/31/14)	
The BeeHive Fund	7.87%
S&P 500	13.69%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	9.42%
S&P 500	10.23%

Spears Abacus Municipal Bond Performance (Net)

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%

2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
SA Bond Account	1.10%	0.63%	0.15%	0.96%	1.04%	0.17%	0.34%	0.79%	0.48%	0.52%	0.16%	0.26%	6.43%

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. Spears Abacus Advisors LLC ("SA") has contractually agreed to waive fees and expenses through at least April 30, 2015 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).

1.04%: The total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements, as stated in the fee table of the fund's prospectus, pursuant to FINRA Rule 2210(d)(5).

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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 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 2012, 2013 and 2014.

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.

Risks: 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 is the case with 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.

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SA Municipal Bond Performance

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