APRIL 10, 2014

*"Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn't … pays it"*

– Albert Einstein

***Dear Investor,***

The first quarter of 2014 was uneventful for most major financial markets. There was no shortage of world news, but investors exhibited little concern. This lack of reaction was notable given the widespread worries of a reversal from last year's significant rise in asset prices. For the quarter, U.S. equity markets were break-even or slightly positive, as were our accounts.

Our thesis for several years has been to effectively turn common bearish themes upside down. Sluggish, though steady, economic growth and anemic employment gains have been cited as signs of a weak and uncertain recovery. While that may be true, this environment has allowed corporations to expand profit margins and increase earnings without fear of inflation. Federal Reserve actions have been described pejoratively by many as printing money and enabling debasement; but low interest rates have allowed equity valuations to expand and forced savers off the sidelines. The federal budget deficit was also a target for investors' ire; yet it has been actually falling (even if temporarily) and no matter how undesirable it may be, it has little bearing on short term stock prices in our opinion.

We make no judgments about the forgoing, but clearly these last five years have been an excellent mix of factors for stock market gains in general, including for our portfolios. Recently we have tempered our enthusiasm somewhat. This benign environment will not continue in perpetuity and is likely closer to the end than the beginning or middle. Our observation is not bearish; it is simply a recognition that markets move in cycles. Low interest rates have driven down the cost of borrowing, making cheap debt available even to poor credits. While not a mass mania, speculative behavior is bubbling up in certain areas of the markets. And most importantly, valuations are no longer "cheap".

We have been surprised by the market's ability to self-correct, which has clearly extended the typical cycle. Lower interest rate expectations give rise to higher stock prices and other speculative behavior; which give rise to higher interest rate expectations; which results in a drop in equity prices; which lowers interest rate expectations. Thus far the pattern continues unabated.

SPEARS ABACUS

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

Yet, we all know - or think we know – that a zero interest rate policy is unsustainable. Recently, one of our partners brought his nine-year-old daughter to the bank to open her first savings account. She was excited and willing. As they sat in front of the manager's desk filling in the paperwork, his daughter asked why people put money in the bank. Of course, the answer we have all learned for generations begins with a lesson in compounding interest, and the growth of savings. Instead, the only thing that came to mind was the free pen - and of course he then tried to convince her to invest in stocks and bonds instead.

**Our Portfolio**

The companies that we own generally performed well during 2013, recording average earnings per share (or book value, when that is the more relevant metric) growth of close to 11%. As a result, we have not materially altered the composition of the portfolio over the course of the past six months.

However, during the first quarter, we made two small additions to the portfolio. We looked past our pre-conceived notions about the perennial losses of the airline industry and took a stake in Delta Airlines. In addition, we initiated a position in Avery Dennison post its recent restructuring. We expect to add to both positions in the future. Please see the Appendix for additional discussion of each.

**Conclusion**

There were a few big events in the quarter that consumed the screen time of the financial news. Crimea's sequel, 158 years after the original, was at the center stage of world politics. This signaled recognition of the new political reality of a multi-polar world. But, we view it as irrelevant to our investment strategy or portfolio at this point in time. Of course, it did prove once again that markets are subject to the actions of people, which are far from constant or predictable.

Janet Yellen's appointment as the Federal Reserve Chair was seen as a pivotal moment for the financial markets. It was a historic nomination of the first female Chairperson. It was also a historic first for a Chairperson to assume leadership with short term interest rates at 0%. As a monetary dove, that is a particularly difficult situation. Her legacy will undoubtedly be of raising rates. Our assumption is that rates gradually rise to more normal levels in a healthy manner. At some point this economic cycle will overheat and need to be cooled with a strong hand by the Fed, but we do not yet see that on the horizon.

In the meantime, our portfolio companies continue to have excellent growth prospects, strong cash flows and reasonable valuations. We firmly believe such a portfolio will compound returns over time and is a significantly better value than a free pen.

Sincerely,

***Spears Abacus***

## Appendix

### Delta

Thirty years ago, 16 airlines held at least 3% share of the U.S. airline industry. As of December 2013, there are just four (Delta, American Airlines, United Continental and Southwest) and these four hold over 80% of the market. As anyone who has flown recently will attest, this industry consolidation has changed the face of air travel. Planes are fuller, additional fees are assessed for things that used to be free and frequent flyer programs are getting progressively stingier. All are evidence of a more favorable environment for airlines. In addition, variable costs (fuel is the largest) now represent the majority airline operating expenses, leading to more rational capacity and pricing decisions.

To be clear, the airline industry is still competitive and cyclical, but we believe that the new industry structure is more stable and that this cycle will be longer and more profitable than past cycles. With no merger integration challenges on its plate, a proven management team and the best current free cash flow generation of the legacy carriers (United, American, Delta), we felt that Delta was the best way to participate in this cycle. We expect that Delta's earnings per share will grow at better than 15% per year over the next three years. We also believe that the price-earnings multiple that are assigned by the market, which currently sits near the bottom of all transportation and industrial companies, will expand as investors increasingly appreciate the industry changes brought on by consolidation.

### Avery Dennison

To most, Avery Dennison is best known for its office supply division, a business that the company divested in 2013. Today, Avery Dennison generates its profit from two businesses. Pressure Sensitive Materials produces self-adhesive labeling material that is used for consumer packaging, shipping labels and signage among other things. RBIS produces labels and hang-tags that can be found on all manner of consumer apparel. Neither of these businesses is particularly exciting, but in both cases Avery Dennison has dominant market position and the opportunities for growth.

As implied by last year's divestiture, Avery Dennison is undergoing something of a transition, and this is where we see opportunity. Avery's recent history is one wherein the pursuit of growth sometimes came at the expense of profit. However, a difficult experience in 2008-2009 and a new CFO have refocused the company on maximizing the profitability. Investors are skeptical that management can deliver on the targets, but we believe that a combination of expense savings - some from initiatives that have already been completed - combined with disciplined growth will generate margin expansion. We also believe that management will be conservative in its deployment of the proceeds of the recent divestiture, returning most of the proceeds to shareholders. We believe that AVY can generate 2016 earnings per share of $4.25, up almost 66% from 2013 and that shares can conservatively trade at 15x year ahead earnings.

***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% | | | | | | | | | | 0.44% |
| S&P 500 | -3.46% | 4.57% | 0.84% | | | | | | | | | | 1.81% |

| Trailing 12 months (3/31/14) | |
|---|---|
| The BeeHive Fund | 24.74% |
| S&P 500 | 21.86% |

| Annualized Since Inception (9/2/08) | |
|---|---|
| The BeeHive Fund | 9.35% |
| S&P 500 | 9.50% |

***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% | | | | | | | | | | 1.89% |

*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 is 1.04%. 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).*

## *Important Note About 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.

### *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.**

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

### *SA Municipal Bond Performance*

Municipal bond performance information is presented for 2012, 2013 and 2014. 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.