JULY 14, 2011

> *"No more distressing moment can ever face a…government than that which requires it to come to a hard, fast and specific decision."*
> - Barbara Tuchman, *The Guns of August*

Dear Investor,

By the numbers, the first half of 2011 was a solid performance for the broad stock market and for our portfolios in general. By sentiment, however, it was just plain gloomy. General pessimism combined with specific, and large, fears have created a serious negative pall and a lack of conviction. A general decrease in trading volume and an increase in market correlation indicate that emotion and macroeconomic data are overruling corporate fundamentals and profits. Emotion does dictate stock prices on any given day, but ultimately company profits are where we derive our return.

As we stated in our first quarter 2011 interim and quarter-end letters, there are many reasons to be worried. The Middle East revolutions and the resulting oil price spike were the most pressing. Indeed, we believe these factors, combined with the Japanese earthquake, are what caused the recent slowdown in the pace of economic growth. Whether this proves to be temporary or not may depend on the outcome of two other looming threats: the European debt crisis and the U.S. debt ceiling debate. Both, in their own way, are direct descendants of the credit crisis of 2008. At that time, national governments and central banks saved the private sector by nationalizing many of the issues and by increasing both fiscal spending and government debt levels. The eyes of doubt are now cast upon the public sector to see if the status quo is sustainable.

In return for a bailout, the European (primarily German and French) authorities continue to act tough with the Greeks, insisting they have no choice but to take their medicine in the form of austerity. The Greeks, at least those out in the streets, insist it is the greater Euroland community who has no choice given the holes that a default would blow in the balance sheets of French and German banks. Portugal, Spain, and Ireland also continue to maneuver behind the scenes for their own advantages.

The Euro was conceived as a panacea for European competitiveness. Long tired of U.S. dominance, Europeans saw a combined Euroland as an economic powerhouse that would inure all the benefits of seamless intra-European trade and bestow global economic heft. This theory worked in practice as several countries moved from near third world status toward greater economic strength. Of course, with hindsight, some of this growth was illusory as the strong currency allowed weaker countries to borrow past reasonable limits obtainable on their own.

Now, the Euroland experiment faces its toughest test. Countries with independent fiscal and spending policies have no independence regarding monetary policy. The historical tool of currency devaluation is now not available to participants of the single currency, which creates further tension in the monetary union. Clearly weaker European countries need more stimulus and accommodative policies. But Germany, for example, does not. The regional, cultural and political differences overlaid on a single central bank have proven to have limits. We here in the States are not completely immune to this issue of divergent interests. Following the events of 2001, the Federal Reserve pumped monetary stimulus into the economy. The northern manufacturing and rustbelt states needed this help, but the sunbelt states were already experiencing population, economic and employment growth. The easy liquidity added fuel to the fire of a housing boom that, although national, was most evident in Arizona, Florida, Nevada, and Southern California.

It is in all of Europe's interest (and indeed the world's) to have a rational and compromised solution. Unfortunately, betting on European states not going past the brink has not been successful in the past. As Tuchman discussed in *The Guns of August*, many believed economic co-dependence would cause the pre-WWI governments to follow rational paths of compromise; only to be proven horrifically wrong by the war itself.

Our own history of a bitterly divided government is more mixed. At times emotions have boiled past the point of rational thought, most notably in 1860. But compromise has always been an important part of our political system and we hope that cutting off our nose to spite our face (in the form of not raising the debt ceiling) will be avoided by all parties involved. We have debts that we need to pay. At the same time, we spend significantly more than we earn from taxes and need to rectify that imbalance. Let's not confuse the two quite separate issues.

While the long-term issues of deficit spending and unmanageable debt are serious economic problems, the debt ceiling debate is pure pose and posture. We do not often consider partisan politics as a primary factor in our investment analysis, but unfortunately this is a purely political factor and potentially a dangerous one.

There are clearly rational paths that can be followed in both the Euroland and debt ceiling negotiations. We believe that these crises will be averted, but there is a reasonable chance there will be relief only after moments of fear and panic. Ultimately, we do not expect there will be long-term impairment to well-chosen securities, but we do recognize market valuations may suffer over short periods of time. The best defense remains liquidity, no leverage, and a reasonable reserve of cash or near-cash equivalents to meet short-term spending needs – while still maintaining a core portfolio for long-term investment. Although we hesitate to say it, the last few years show that significant upside surprises do happen and given enough patience, even the worst market crashes are likely to recover – sometimes more quickly than seems possible. Not being invested during unexpected rises in the market can have devastating effect on portfolio returns.

The long-term reason to hold securities is that they will increase in market value. And the only reason the market value of a security will rise over time is that the underlying assets increase in value or income generation grows. That's as simply as we can state it; the rest is just fodder for cable television.

Equity Portfolio

We bought one new security this past quarter, and on the surface it seems a bit far afield for us. CIT was one of the major bankruptcies of the 2008/2009 credit crisis and in a way was a poster child of the issues of the day – questionable assets supported by excessive short-term leverage. But, our focus is not on what it once was, but on the company that exists today. In our view CIT's franchise was tarnished but not destroyed by the company's fall from grace. CIT's new management team deserves high marks for the progress made in repairing the business post bankruptcy. We believe that our investment will yield a sizable return as this restructuring continues and the inherent value that exists is recognized. Please see the Appendix for a further discussion of CIT.

For many portfolios we also increased a few positions during the quarter. Google's market price seemed to assume that everything was going wrong for a company where most things are going right. We increased our position near recent lows in the stock price. Williams (discussed last quarter) was also increased to a full position; we believe the current business reorganization will yield significant gains based on a sum of the parts analysis. IMAX continues to increase its theater network, despite a recent slump in Hollywood revenue (poor movies are beyond their control). The IMAX format continues to draw premium ticket prices, especially internationally. We took advantage of recent price weakness to increase our position.

Bond Portfolio

Ironically, fears that were stoked by the actions of governments are increasing the value of government securities, at least in the short term. Despite this outperformance, we believe the long-term investor continues to be under-compensated for the risk of holding government issued fixed income assets. We currently favor shorter selective higher yielding bonds or hybrid securities with a fixed-to-floating rate structure; we also continue to monitor the market for pure floating rate notes. In each case we are structuring portfolios with shorter durations that will allow investors to realize a return that outpaces our inflation expectations over the long term.

The municipal bond market, as measured by the Merrill Lynch Municipal Index, returned 4.5% during the second quarter. Municipals were able to shrug off the recent bad press and debate about credit worthiness, while the lack of issuance (down over 50% year-over-year) also contributed to strong positive returns. As most states begin their fiscal year in July, many are anticipating rising revenues while politicians espouse plans to limit their liabilities for the future. We continue to find opportunities in this market even after the recent rally, but we caution investors of the need for thorough credit research and careful selection.

Firm Update

We are proud to announce that Robert P. Morgenthau will be joining our firm and partnership this fall. Bob has been a longtime friend of the firm, and has been an informal adviser and mentor since our founding. Bob began his career at Shearson Lehman Hutton and joined Lazard Asset Management in 1990, where he rose from portfolio manager to a Managing Director and Global Head of Distribution. Upon leaving Lazard he joined Bank of America as President of Private Advisory Services and soon after founded NorthRoad Capital Management. Bob recently sold his shares in NorthRoad and subsequently considered many available opportunities. We are honored that he will be joining Spears Abacus to help us service our clients' needs and strengthen the firm's future through his shared leadership.

Concluding Thoughts

We continue to believe that we are finding well valued investments in irreplaceable companies. Only a hard-nosed optimist can avoid worrying about a second phase of financial crisis, yet we do not believe that this is the probable scenario. Time continues to be an asset as delay has allowed the markets and the financial system to prepare for further shocks, and cyclical factors continue to improve. While there are many pundits willing to claim there are obvious answers, there is no such path. As we discussed above, there are two immediate risks that are preoccupying investors' thinking. While we agree there are risks, we cannot forget that their resolution will likely propel asset prices upwards.

As we discussed in the first quarter 2011 letter, true risk may lie ahead in the explosive mix of inflation, interest rates, and government debt. While the timing of this risk is uncertain, the best defense in our opinion continues to be a diversified portfolio of securities of well capitalized and well positioned companies. We remain cautious, but we believe our portfolios continue to offer compelling value.

Sincerely,

William G. Spears   Robert M. Raich

James E. Breece   Paul F. Pfeiffer   Stephen H. Frank   John V. Raggio

Appendix

CIT

CIT Group, founded in 1905, has a long history as a lender to small and mid-size businesses, but after a disastrous foray into consumer lending is now probably best remembered as one of the major casualties of the crisis of 2008/2009. The events leading up to its 2009 bankruptcy no doubt damaged CIT's core franchise and today the company's assets stand 50% below 2007 highs and originations are running more than 75% below peak levels. However, a new management team led by John Thain has returned the company's focus to its core businesses and has made significant headway over the past 18 months in improving the firm's operational controls, restructuring the balance sheet, and resuming growth in new loan originations.

Despite this progress shares still traded at a discount to reported tangible book value at our date of purchase. What is more, we believe that reported tangible book value of $43 per share understates "economic book value" by at least 25% as it assigns no value for Fresh Start Accounting marks taken during bankruptcy or net operating loss carry forwards. It also assigns no value for the productive use of the significant excess capital that is retained on balance sheet. Over the next 12-18 months we believe that CIT will make continued progress normalizing its sources and costs of funding, rebuilding business momentum and satisfying regulatory requirements. Accordingly, we expect that the valuation discount will narrow and that a portion of excess capital will be returned to shareholders.

DG Fastchannel

During the second quarter, portfolio holding DG Fastchannel announced their intention to acquire MediaMind Technologies, the largest independent provider of online ad campaign management solutions (Google's DoubleClick is larger). As background, DG's primary business is the electronic distribution and delivery of television advertisements from post production houses and ad agencies to the thousands of broadcasters across the country. It has long been DG's belief – one that we share – that in time the television screen and internet enabled screens will converge, creating an opportunity for an intermediary that is able to deliver advertising across both platforms. With this in mind, the acquisition of MediaMind was not surprising; however, the size of the transaction was.

DG will pay $415 million, net of cash acquired, for MediaMind, which in relation to DG's $800 million market capitalization is a large bet on a business that is currently non-core. We take an optimistic view and believe that given DG's significant financial resources, the company is better served acquiring a market leader than trying to break into the business with a series of small acquisitions and home grown initiatives. We believe that trends in DG's core television business will support a good return from current levels, with success establishing an integrated platform for delivery of video advertising content adding significant upside. We will be carefully monitoring the company's progress and will be watchful for any red flags that might suggest that the integration of MediaMind is taking management focus away from the core business.

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%							5.84%
S&P 500	2.37%	3.43%	0.04%	2.96%	-1.13%	-1.67%							6.02%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	7.09%
S&P 500	3.48%

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%							3.39%

Important Note About Spears Abacus Advisors LLC ("SA") Investor 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 is 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 that is managed by SA. The BeeHive Fund 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 Fixed Income Performance Information

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.