JANUARY 11, 2011

"One expects many things to happen that somehow never do."
- James Grant

Dear Investor,

Once again, we find the end of the calendar year to be a convenient time for discussion and review, even if your capital does not care much about artificial time periods. We, as a firm, may be pleased with our 2010 performance, but that means nothing if losses loom on the horizon. The future is, and always has been, our focus – but historical reflection does fulfill a beneficial purpose.

Looking back, the portfolio performed well in 2010 both on an absolute and a relative basis. December alone provided a significant lift to the market and even more so to our holdings. Our core equity portfolio, represented by The BeeHive Fund, once again outperformed the S&P 500 in 2010 and, more satisfying to us, had a strong absolute gain of nearly 17%. Individual standouts included Check Point Software Technologies, FMC Corp., Kinder Morgan and Oracle; laggards were Baxter, Microsoft, Unilever and Western Union. The fund, after an untimely start date just before the September 2008 Lehman collapse, now has a sizeable gain since inception. Our managed portfolios, depending on the equity asset mix and risk level, have performed similarly well.

Our quarterly missives over the last year hold the keys to our positive performance. We remain conservative in our investing – but we do not invest to advance an inflexible ideological position; we invest to preserve purchasing power and to earn real returns.

All through this recovery, media face-time has been given chiefly to those who were correct in being negative prior to the crisis, but have also remained so throughout. Their incentives were clear; they achieved fame and fortune through doom saying, which was correct and prescient – but it has not been in their interest to turn moderate or sanguine. Instead, they have generally attempted to make the next great call for disaster. This left them fighting yesterday's war, and not participating in the peace.

We, on the other hand, being free of a self-proscribed tilt or taint, were able to identify one important fact: that direction matters. No matter how tepid a recovery may be, a recovery – or even an abatement of decline – is positive for stock prices. We continue to believe that the recovery is building steam, albeit slowly. There is no need to look past the General Motors IPO and TARP repayments to understand that we are well beyond the crisis state that prevailed in 2008 and early 2009. Employment and housing continue to be a drag, and government spending restraints will be a headwind – but, as we consistently stated in 2010, recovery will likely continue. Our belief in this recovery is not only from macroeconomic analysis, but from our focus on the fundamentals of the businesses we analyze. Corporations are generally prospering.

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Now turning to the question of whether stocks are valued appropriately. Ultimately the reason to own equities is that the future profits and/or cash flows provide an adequate return on today's investment. The holdings in our portfolio today, in our opinion, will provide such a return. This does not fully answer the question of valuation for "the market," but we feel no compunction to analyze a 500 stock portfolio subjectively selected by the good people at Standard and Poor's[1]; we have no need to model our portfolio on theirs. If pressed, we would say that market overvaluation is hard to see when the recovery cycle remains in place, broad retail participation in stocks is still lacking, and valuations, again in our opinion, are compelling, even if not overwhelmingly so.

Equity Portfolio

Notwithstanding our belief in economic recovery, the increased stock valuations will necessitate more than GDP growth to earn significant returns. In early 2009, stocks as an asset class were unusually cheap. We took the position that the prudent way to benefit from a recovery and minimize risk was to hold the best franchises available in necessary and important industries. While these firms still present attractive investments, we are beginning to find better opportunities in firms that have significant secular growth due to 1) disruptive business models or technologies, 2) competitive advantages that allow them to take market share, 3) unique or niche businesses that allow pricing ability, 4) businesses that are underpenetrated and therefore can grow faster than the global economy or 5) some combination of the above.

As a recent example, we sold most of our position in Johnson & Johnson. Similarly, and just subsequent to year-end, we took some of our gains in Nestlé. In both cases we sold high quality stocks with quality management. Despite these attributes, they were not cheap and have such a large presence in their respective industries that it will be hard for them to grow faster than general global economic activity, and due to strong operational management, hard to find additional operating leverage. New purchases in the quarter included IMAX Corp. (IMAX) and, following year-end, DG FastChannel (DGIT).

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[1] Despite conventional wisdom, the S&P 500 is not a purely passive index. Its constituents and criteria for inclusion are subjectively managed by S&P. We quote from their published policies:

> *Standard & Poor's U.S. indices are maintained by the U.S. Index Committee. All committee members are full-time professional members of Standard & Poor's staff. The committee meets monthly. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the indices to the market, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.*
>
> *Standard & Poor's considers information about changes to its U.S. indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.*

IMAX has a unique and niche technology and brand, as well as a new disruptive business model. At the same time, the company is underpenetrated in its potential markets – especially internationally. DGIT, likewise, has a dominant position in a niche industry that is undergoing a format shift that should provide strong profit growth. We hope you find our further discussion in the Appendix of interest. In addition to the recent purchases, we discuss our current holding in Thermo Fisher as their recent acquisition of Dionex Corp. was an important event for shareholders.

Recent Sale

In our quarterly letters we have tended to discuss our new purchases in detail, while dedicating just a line or two to our sales. In our practice of investment management, things are much more balanced and we spend as much time debating current holdings as we do new opportunities. Within our process, a sell discussion is typically initiated for one of three reasons: the investment thesis has changed or played out; market valuation more than compensates for our assessment of the future opportunity; or better investments exist. While this makes it sound like a science, selecting the right time to sell is rarely simple. It is difficult to know when to take the loss on a thesis that is not playing out the way it was initially anticipated, and equally difficult to recognize the right time to sell a good business that is performing well, but has become fairly (or over) valued. To illuminate the process, we provide a brief summary of our initial investment in Nestlé, along with our recent partial sale.

When we invested in Nestlé three and a half years ago, market sentiment was tepid. After delivering organic revenue growth and operating margin expansion through good times and bad for over a decade, investors believed that there was no catalyst or potential for upside surprise – in other words Nestlé was too consistent and, frankly, too boring. We, on the other hand, were happy to have the opportunity to purchase shares in a great franchise at a valuation that was a discount to all of its peers. While timing was uncertain, we also believed that Nestlé had the potential to unlock hidden value through the sale of its stakes in Alcon, L'Oréal, or both.

Since our purchase, shares of Nestlé have performed well, returning cumulative 61% from the time of investment, versus an S&P 500 loss of -11% over the same time frame (both from July 6, 2007 through December 31, 2010 and including dividends).

We further believe that it is just as important to sell good businesses at times when their valuations are no longer attractive. Such is the case with Nestlé. We continue to view Nestlé as the operational gold standard in the packaged food industry and are confident that management will continue to invest the proceeds from the sale of the Alcon stake productively. However investor sentiment has shifted 180 degrees: the consistency of execution that resulted in a valuation discount at the time of purchase now earns a premium and the ambivalence concerning capital structure has shifted to enthusiasm – particularly in anticipation of share buy-backs. We fully agree that the market is accurately valuing the Nestlé franchise; unfortunately that means the upside opportunity is limited and we now need to look for other undervalued franchises.

Credit Markets

After several quarters of strong bond performance (i.e. declining rates) the trend reversed in the fourth quarter as most interest rates across various fixed income asset classes ticked upward. Ironically or not, the timing of this rise coincided with the Federal Reserve Bank's quantitative easing announcement, ostensibly instituted to keep rates low. The bond market is a prognosticator looking several steps ahead. The general expectation of Fed action lowered rates during the summer months, so it should be no surprise that the actual announcement (again, intended to keep rates low) was followed by rising rates in expectation of the program working, and therefore greater inflation and interest rates appearing in the future. It is frustrating at times, but the bond market is an endless loop of "he thinks, that I think, that he thinks, that I think, that he thinks . . ."

Perhaps the quarter's largest bond market swings were in municipal issues. During 2010, municipal bonds experienced several positive developments: we saw significant capital raises by municipal issuers without insurance (which the market has learned was cold comfort in a crisis); the Build America Bond (BAB) program brought new buyers into municipal debt (those who did not need a tax deductible rate) and reduced tax-exempt bond supply; and, at least during the first ten months of the year, bond prices appreciated.

The last two months of the year demonstrated lurking risk in a supposedly riskless municipal market; bonds sold off dramatically (4.3%), and municipal bond funds, many of which run leveraged books, sold off as much as 15% from peak to trough. Some commentators have attributed the late year municipal bond sell-off to fears about issuer credit quality. We believe the market action was more likely driven by rising treasury rates, the extension of the tax cuts (which makes the tax exempt market less attractive), and a high number of bond issuances that flooded the market with supply (due to the cessation of the BAB program, even if it is renewed later this year).

While our bond holdings are not immune from price swings, in contrast to the funds, we can, and in fact intend to, hold them until maturity at which time we expect to receive par. In addition, as discussed in previous letters, we have kept our bond portfolios in short maturities to protect against interest rate increases.

Firm Update

Once again, we are pleased to announce the expansion of our partnership. John Raggio joined our fixed income team in 2008, and has been the lead analyst and portfolio manager for our fixed income securities since mid-2009. John has proven to be an invaluable asset during a volatile period in the credit markets. In addition to his bond responsibilities, his ability to analyze balance sheets and corporate liquidity has enhanced our work in convertible debt issues and preferred securities and even our common stock research effort. John is an integral part of our investment team, and effective January 1, 2011 we are proud to call him our partner.

Concluding Thoughts

William Shakespeare once said, through the lips of Hamlet, "There is nothing either good or bad, but thinking makes it so." We quote this not to delve into a debate about moral relativism. Rather as a succinct summary of the mistake our peers and, hopefully less so, we sometimes make. To begin the investment process with a bias, generally leads you to where you started. We respect those who continue to caution that dangers possibly lurk, even if they are not probable scenarios. We certainly build these views into our research, but ultimately follow where our own independent analysis leads.

If you want to be bearish, there is no lack of macroeconomic reasons to be so – municipalities may be set to collapse, Europe might implode, deficits appear unsustainable, the Fed will possibly debauch the currency, and the cost of capital is unnaturally low. But as the eminent Mr. Grant points out, you can work yourself up to heights of lather for things that remain unlikely. This DOES NOT mean we are complacent, only that we believe managing risk means not just protecting against high risk, but also low probability scenarios. Proper risk management means benefitting from the white swans, as well as protecting against the black.

We remain encouraged by developments within our portfolio and throughout the economy, although there certainly are many conditions we would prefer did not exist. Given the rapidity of events and the interconnectedness of the global economy, we remain flexible in our beliefs and liquid in our portfolio. We have been pleased to serve you as investment advisors at Spears Abacus over these last four years, and we continue to honor your trust.

Have a very healthy, happy and prosperous New Year.

Sincerely,

William G. Spears | Robert M. Raich

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

Appendix

IMAX Corp.

Founded in 1967, IMAX opened its first large format screen in 1970. Until only recently, the company has catered primarily to the institutional market and, what the CEO affectionately calls whale, bear and seal movies. Recent success is due to a three-pronged strategy wholly different than the IMAX of old and aimed at replacing the high-cost, low-margin business model of the past, which depended on lumpy sales cycles of theater systems to museums, amusement parks, and a few specialty movie exhibitors.

The three important developments include:

1) Fast and economical digital re-mastering of 35mm into IMAX format to allow for theatrical release of Hollywood movies simultaneously with regular format theaters,
2) New technologies that allow less costly system installation (smaller screens for multiplexes) and more efficient film distribution (digital instead of film prints), and
3) A shift to joint ventures whereby IMAX contributes the system and then shares in box office receipts with the exhibitor, instead of one-time sales of systems.

The new business model creates a recurring revenue stream and a greater lifetime revenue per screen. Simply, IMAX can attract the best films due to the immersive experience and premium pricing, convert them at a low fixed cost, distribute them cheaply through a rapidly growing international network of theaters and collect a percentage of gross receipts from both the studio and the exhibitor.

IMAX is a small company and its share price has risen sharply since last summer. Nonetheless, our models indicate that significant upside remains as the network of theatres grows (currently at 375 globally compared to 1,300 identified addressable locations). This combination of household name recognition and untapped potential is rare; however, the large run-up in the stock has given us some pause, so we have only taken a partial position until the stock price – or the facts – become more compelling.

DG FastChannel Inc.

Early in the first quarter of 2011, we added DG Fastchannel (DGIT) to the portfolio. DGIT provides content delivery and management services to the advertising industry using a proprietary network to electronically distribute content to media outlets. While DGIT provides solutions targeting multiple media formats, including television, radio, print or online, the distribution of television spots remains DG's core business and accounts for the majority of revenue and profitability. DG's growth over the past few years has been driven by the conversion of the "dub and ship" method of content distribution to digital.

While opportunity still remains from the shift from tape to electronic, a new more powerful transition is beginning in the shift from standard definition spots to high definition spots.

DGIT receives premium pricing on the delivery of an HD spot, and though HD deliveries comprised less than 10% of the spots delivered in 2010 they generated about 40% of total company revenue. While this price premium will certainly decline as penetration grows, the largely fixed cost nature of DGIT's business means that incremental gross margins will continue to be very attractive.

We see additional opportunities for upside from the digitization of direct response distribution, expansion of DGIT's network into international markets and growth of the online distribution channel. Though this opportunity does not come without risk, we think that the valuation at our purchase price provides a very favorable return asymmetry.

Thermo Fisher Scientific Inc.

In the life science tools industry, Thermo Fisher is the largest market participant and its scale and breadth of product offering provides a competitive advantage. While internal development of new products is important (and is receiving renewed attention), we believe that a key component of Thermo Fisher's business model is the ability to use excess free cash generation to acquire products and technologies that are complementary to their existing portfolio and to leverage their distribution infrastructure.

In aggregate these "bolt-on acquisitions" can add a couple of points to revenue growth each year but individually are generally too small to warrant comment. However, this quarter we want to highlight the recently announced acquisition of Dionex because of its size ($2.1 billion) as well as its strategic fit.

Dionex is the leading participant in ion chromatography and also a major participant in liquid chromatography. Both types of chromatography are frequently used in advance of mass spectrometry (mass spec) to separate the components of a mixture before identification and measurement. Instruments are often sold together and bringing these two strong franchises under the same roof should have a synergistic effect on both chromatography and mass spec sales. Although the purchase price was at a premium, the fact that Thermo Fisher shares traded up on the deal announcement tells us that we are not alone in our positive view of the transaction.

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%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	6.06%
S&P 500	1.65%

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%

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 is 1.64%. The adviser has contractually agreed to waive fees and expenses through at least April 30, 2011 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 and 2010.

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 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 and 2010. 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.