JANUARY 15, 2013

"Caution is the eldest child of wisdom."
- Victor Hugo

Dear Investor,

It has been 15 months since we wrote that negative factors were overly reflected in stock prices. Since that time, prices have appreciated by nearly 30%. We remain positive towards stocks, especially when contrasted with other asset classes, but the price gains alone have made us incrementally more cautious.

By many measures, 2012 was a successful and bountiful year. Housing prices increased, corporate profits advanced, the economy produced jobs and reduced unemployment, new energy supplies were discovered, and commodity prices stabilized. Stock prices, as measured by the broad indices, appreciated significantly in 2012: The Dow Industrials Average gained 7.3%, while the S&P 500 gained 13.4%, plus a little more in dividends. Our portfolio advanced somewhere in the middle of that range and exceeded both during the last two quarters of 2012, even with a conservative positioning.

Yet, the year was a strangely nerve-wracking brew of political fights, elections, international conflict, sovereign debt scares, and natural disasters. Literally up to the last minute, the economic outlook appeared uncertain and susceptible to human error and policy blunders. This kept many investors in a defensive mode and many doomsayers holding influence over the headlines. It, unfortunately, also kept many investors from realizing another year of significant gains.

Our outlook for 2013 is not much different from our view twelve months ago when we foresaw improving fundamentals partially offset by political wrangling, economic imbalances and policy interference. This coming year will be absent either a presidential or mid-term election, but these political cycles have become so extended they are effectively permanent. Unfortunately, the fiscal cliff was averted by deferring the tough decisions into 2013. The debate over spending cuts and the debt ceiling will once again be a huge source of uncertainty this first quarter of 2013. Most importantly, even once resolved and "behind us" the negotiated solutions appear thus far to be insufficient, by a wide margin, to deal with the structural and increasing fiscal deficit and debt burden.

Last year at this time we wrote "the combination of improving fundamentals, low valuations, and persistent investor pessimism are the classic ingredients for very favorable longer term stock returns." We believe this is still true, yet stock prices are higher (and therefore values are harder to find) and some fundamentals have begun to slow. Pessimism, by some measures has also declined as several surveys indicating investors' views of U.S. equities have gone from strongly negative to lukewarm. Stocks have gained significantly, well ahead of underlying sales and even earnings growth. Some of this is a reflection of the discounted values following the recent great recession, but this means the margin of safety has been reduced and we need to tread a bit more carefully.

Our Portfolio

During the quarter we made an initial purchase of Boeing. Competing in essentially a duopoly with Airbus, Boeing is well positioned to benefit from the increase in global air travel as well as the inevitable fleet replacement that is underway. With most of the well documented problems behind them (notwithstanding the recent one-off issues of the last few days), we believe that the profitability of the 787 program will begin to move higher and will ultimately be reflected in a higher stock price. Please see the Appendix for a detailed write-up of Boeing.

We trimmed several of our long held positions as values became stretched. We also exited completely out of our successful investment in CVS/Caremark. Our original thesis was based on the synergies a pharmacy benefits manager and retail combination would bring. These benefits became apparent over time, and accelerated rapidly once Walgreens and Express Scripts clashed, allowing CVS to pick up a large number of Walgreen customers. In short, the stock has worked very well and, given a lack of foreseeable catalysts and an uncertain healthcare landscape, we redeployed the capital to better ideas.

Concluding Thoughts

Three months ago we wrote that 2012 should end with much more clarity than it began. Things are indeed clearer, but perhaps not as clear as we had hoped. Spending cuts to the government's budget will be debated vociferously this quarter, and it is unclear who holds the leverage and what even a moderate solution may be. We have now increased taxes on the wealthy, workers, and investors – and even savers through low interest rates. It seems likely, and responsible, that some government spending will be removed from the economy. All things being equal, these actions will result in slower growth in the coming years – yet may do little to address the structural deficit.

But, from the looking glass of our holdings, it is still possible to grow revenues in excess of costs, maintain balance sheet discipline, return cash to shareholders, and trade at a reasonable stock valuation. Under these conditions the rationale to invest in the equities of U.S. and multinational corporations remains compelling. We believe our holdings continue to represent an attractive return profile.

We appreciate your continued support and wish you a happy, healthy and successful 2013!

Regards,

Spears Abacus

Appendix

Over time Boeing's shares have traded in long cycles that very closely follow the free cash flow generation of the company, and investors who purchase shares early in the profit cycle (and have the good sense to recognize the peak) have been well rewarded. With the 787 program turning the corner, record backlog and a defense business that has already taken steps to brace for leaner years, we believe that we are at the beginning of a multi-year cycle of growth in free cash flow generation and increased return of capital, which should also drive share prices higher.

Behind schedule and over budget, Boeing's stumbles in commercializing the 787 have been well covered by the press. However, the major hurdles of first flight and initial commercialization have been cleared. As importantly, in the second half of 2012, Boeing began producing 787 aircraft that did not require rework, commenced production on a new line at their South Carolina facility and successfully executed a production rate increase, stepping up to five aircraft per month. The 787 program is not completely out of the woods, but signs are positive that production efficiency and profitability will allow for long-term program success.

Progress for the 787 program is supported by a record order book, which totaled 4,373 aircraft at the end of 2012 and represents seven years of production at current production rates. This backlog provides unusual visibility and we believe is supported by fundamental demand. In emerging economies, demand for air travel is rising with wealth levels and is expected to drive a near doubling of the global aircraft fleet over the next 20 years. Meanwhile, developed market replacement demand is robust as many aircraft are nearing the end of their useful life and late model aircraft offer 10%-20% improvement in fuel efficiency.

Finally, we do not believe that Boeing's defense business will derail the cycle as the company has successfully diversified their customer base to include many foreign governments, has a large service and support business that is relatively insulated and has proactively made changes to its expense base in anticipation of a difficult government funding environment.

Boeing ended the year by announcing a 10% dividend increase and has stated that they would resume a share repurchase program that was suspended in 2008. We believe that this is a first step in what will be a trend of increased dividends and share repurchases. Ultimately, we believe that Boeing will generate over a third of its current market cap in free cash flow over the next three years, a material portion of which will be returned to shareholders.

Spears Abacus BeeHive Fund Performance (Net)

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%	-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%	11.46%
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%	16.00%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	4.56%
S&P 500	4.91%

Spears Abacus Municipal Bond Performance (Net)

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%	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%

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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 2010, 2011 and 2012.

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SA Municipal Bond Performance

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