JULY 18, 2017

Ben Hecht, the screenwriter best known for *Gone with the Wind*, once said that "trying to determine what is going on in the world by reading the daily newspaper is like trying to tell the time by watching the second hand of a clock." When it comes to investing, we are generally in complete agreement. However, every once in a while a single edition of a paper can provide important perspective by way of contrasting headlines. With 2017 nearly halfway over, the June 28 edition of the *Wall Street Journal* provided us with one of those rare opportunities.

A story on the first page of the Business & Finance section reported that Apollo Global Management had just raised the largest-ever leveraged buyout fund, a staggering $23.5 billion. Buried on page 3 of the same section, the Journal reported that Nestlé announced a $20.8 billion stock buyback. (The latter had the greatest immediate interest to us, as we invested in Nestlé in January and the shares have already advanced more than 20%). These pieces reflect two aspects of a long-term trend that has had significant impact on stock markets around the world.

Corporations and financial buyers have been using borrowed funds to acquire their own shares or entire businesses. One of the reasons they have been both able and motivated to do so is that the extended period of historically low interest rates has afforded companies access to low-cost borrowing. Since 2010, U.S. companies alone have spent over $3 trillion buying back their own shares, according to economic researcher Cornerstone Macro. These buybacks were largely financed with borrowed funds, as companies increased their total debt by nearly $2.5 trillion in the same period. During that period, North American companies completed mergers or acquisitions with a total value of $10.8 trillion, according to *FactSet*. It is reasonable to estimate that at least half of that amount was funded with borrowed money.

Borrowed funds had a meaningful impact on both the demand for, and supply of, equities. Corporations and financial buyers have been by far the biggest buyers of stocks during this bull market. By comparison, equity mutual funds and exchange-traded funds have had net inflows of one tenth as much, less than $250 billion over the same period of time. At the same time, mergers, acquisitions, buyouts and buybacks have reduced the supply of available investments. Twenty years ago, there were 7,300 publicly traded companies in the U.S. Today, only half as many remain (approximately 3,700). The increase in demand and decrease in supply go a long way to explaining the rise in stock prices. It is important to ask if this has introduced a new element of risk to investors. Despite the eye-catching statistics, it is not clear to us that this trend has reached the point of being dangerously unsustainable.

We do not believe this is another credit bubble like the one that precipitated the financial crisis. Public companies in the U.S. spend a much smaller percentage of their cash flow on debt service than they did five, ten or even twenty years ago. We think using low-cost debt to fund stock purchases is likely to continue; however, like any trend, it cannot last forever. It will end for one of two reasons. Either companies will reach or (more likely) exceed their borrowing capacity and will no longer be able to finance their acquisitions and buybacks with debt, or interest rates will rise, increasing borrowing costs and making debt a less attractive option.

Engineering an orderly rise in rates, before a bubble forms, is a responsibility that falls on the shoulders of central bankers. This observation brings us back to that very same edition of the *Wall Street Journal*. On the front page was a story about the likelihood of higher interest rates in the Eurozone as the European Central Bank (ECB) follows the U.S. Federal Reserve Bank in winding down its longstanding program of monetary stimulus. In prepared remarks at an annual economic policy conference in Portugal, ECB President Mario Draghi said that "all the signs now point to a strengthening and broadening recovery in the euro area." Market reaction was swift and certain. The rates on ten-year government bonds from Italy to Germany rose dramatically. The euro itself rose 1.4% versus the dollar, the biggest one-day move in over a year.

This does not necessarily herald a new era of steadily rising rates. Markets are not like light bulbs that suddenly switch from on to off. Short-term movements are notoriously poor predictors of long-term trends. But today, we are undeniably closer to a more normal environment of higher interest rates.

Looking Back

The eerie stability of stock prices that we noted in our last Investment Perspectives continued in the second quarter. Once again, there were only two trading days when the S&P 500 moved more than 1%. Common measures of volatility achieved multi-year lows. Every sector exhibited positive returns with the exception of energy, which followed the falling prices of crude oil and natural gas (10% and 5% respectively). Fortunately, a small position in Schlumberger is the Fund's only direct exposure, having a modest impact on results.

On the other hand, the Fund had meaningful positive contributions from both high and low tech. One-time laggard, Oracle (enterprise software) and Ball Corp (aluminum cans and bottles) were significant outperformers. Financials, led by Citigroup and CIT Group, rebounded from a subpar first quarter. As noted earlier, a new position in Nestlé has provided immediate returns. Shortly before the company announced the stock buyback, activist investor Third Point Capital disclosed that it had amassed a $3.5 billion position and is working closely with management to enhance the stock price. Other standouts in the quarter included Whirlpool, Delta Airlines and Alphabet.

Looking Forward – the Bond Market is in Charge

The global economy is made up of complex organisms. As is always the case, there are many countervailing forces at play. Optimism in Europe is balanced by emerging concerns among U.S. investors. Historically, a flattening yield curve has been a warning sign of a slowing economy, predicting five out of the last seven recessions. But, our sense is that the bond market is not currently a harbinger of troubled times ahead. We think there is likely a different explanation for the modest decline in longer term rates. It is an accepted wisdom that money seeks the highest return. Currently, U.S. government bonds are the highest yielding among developed markets:

Country	10-Year Yield-to-Maturity
US	2.39%
UK	1.29%
Germany	0.57%
Japan	0.08%

U.S. bonds are more attractive than foreign alternatives. While yields are still low on an absolute basis, we believe that the offshore interest in our debt will not abate in the foreseeable future. Demand from global investors is likely to keep a lid on longer term rates, even as the Fed moves farther away from the zero interest-rate policy in place since the financial crisis.

We cannot say for sure how long it will take to reach an interest-rate inflection point. When it does come, the transition may not be a gentle one. The preternaturally smooth market activity is likely to give way to above-average daily volatility. In case that environment comes sooner rather than later, we continue to hold larger than usual cash reserves.

That being said, even if we have seen the lows in bond yields, companies and private-equity firms will not change their ways overnight. For the foreseeable future, it seems likely that relatively easy credit will enable strategic and financial buyers to finance large-scale stock purchases with debt. For now, this should continue to provide an important source of demand for equities. But financial engineering alone cannot be counted on to boost stock prices forever. We have a high degree of confidence in the companies in which we have invested, and we feel that we have appropriately balanced opportunity and risk.

Spears Abacus BeeHive Fund Performance (Net)

2017	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	1.33%	2.77%	0.27%	1.07%	1.40%	2.29%							9.47%
S&P 500	1.90%	3.97%	0.12%	1.03%	1.41%	0.62%							9.34%

2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-7.99%	-0.40%	6.16%	-1.28%	2.29%	-2.46%	4.59%	0.66%	0.00%	-1.09%	4.70%	1.57%	6.11%
S&P 500	-4.96%	-0.14%	6.78%	0.39%	1.80%	0.26%	3.69%	0.14%	0.02%	-1.82%	3.70%	1.98%	11.96%

2015	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
The BeeHive Fund	-4.88%	6.62%	-1.46%	0.99%	1.26%	-0.28%	4.25%	-6.99%	-4.16%	9.90%	0.28%	-3.73%	-1.42%
S&P 500	-3.00%	5.75%	-1.58%	0.96%	1.29%	-1.94%	3.35%	-6.03%	-2.47%	8.44%	0.30%	-1.58%	1.38%

Trailing 12 months (6/30/17)	
The BeeHive Fund	21.22%
S&P 500	17.90%

5 Year	
The BeeHive Fund	12.26%
S&P 500	14.63%

Annualized Since Inception (9/2/08)	
The BeeHive Fund	8.32%
S&P 500	9.89%

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. 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 total annual operating expense ratio (gross) was 1.00% for the year ended December 31, 2016. The Fund's advisor has agreed to contractually waive its fees and/or reimburse Fund expenses to limit total annual Fund operating expenses after fee waiver and/or expense reimbursement (excluding taxes, interest, portfolio transaction expenses and extraordinary expenses) to 0.99% through April 30, 2018. The Fund may repay the advisor for fees waived and expenses reimbursed, if such payment is made within three years of the fees waived or expense reimbursement and the resulting expenses do not exceed 0.99%.

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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 to generate superior long-term capital appreciation through a focused portfolio of companies that SA believes to have dynamic businesses with leading and defensible market positions. The BeeHive Fund invests primarily in equity securities. Performance information for The BeeHive Fund is presented for 2017, 2016, and 2015.

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 BeeHive 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 Receipts involve many of the same risks as investing in foreign securities. Please see the prospectus for a more detailed explanation of these risks.

TOP TEN HOLDINGS (6/30/17)

American International Group, Inc.	5.05%	Allergan PLC	4.36%
Comcast Corp., Class A	5.01%	Microsoft Corp.	4.22%
Apple, Inc.	5.00%	Chubb, Ltd.	4.12%
Oracle Corp.	4.61%	Celgene Corp.	4.02%
Delphi Automotive PLC	4.36%	General Electric Co.	3.88%

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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