



FORWARDFUNDS

Annual Report Forward Small Cap Equity Fund

December 31, 2008

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Forward Funds are distributed by ALPS Distributors, Inc. P.O. Box 1345, Denver, CO 80201

The report has been prepared for the general information of Forward Funds' shareholders. It is not authorized for distribution to prospective investors unless accompanied or preceded by a current Forward Funds' Prospectus, which contains more complete information about Forward Funds' investment policies, management fees and expenses. Investors are reminded to read the Prospectus before investing or sending money.

December 31, 2008

A MESSAGE FROM: J. Alan Reid, Jr.
Chief Executive Officer



Dear Shareholder:

I write this letter in the aftermath of one of the most difficult years investors have faced in our lifetime. As I look for answers in a maelstrom of market turmoil, one word continues to surface in my thoughts — transparency. Webster’s Dictionary defines transparent as being free from pretense or deceit, as well as characterized by visibility or accessibility of information, especially concerning business practices. At Forward, transparency is one of our core values, and we strive to be open and transparent in all of our dealings with shareholders.

Some have likened the impact of these cataclysmic failures to that of an asteroid hitting Wall Street. Like the asteroid that devastated the Yucatan peninsula 65 million years ago, this most recent impact will cause an extinction of those denizens unable to adapt to the changed environment. However, new species will adapt and eventually flourish. Clearly one of the ways that firms must adapt is to become more open, accessible and transparent with investors. Investors must have an informed view of the risks and exposures they face when participating in the capital markets.

After a year where stocks went down, bonds went down, commodities went down, hedge funds lost money and certain imprudent money market funds faced failure, it may be tempting to conclude that there is little benefit in diversification. At Forward, we wholeheartedly disagree. While panics do tend to cause mass sell-offs across the various capital markets, when the dust settles, local markets and different asset classes typically return to their own unique rhythms and cycles. Past experience has shown that diversifying across various return patterns and rebalancing assets to an identified level of tolerable risk benefits investors. Of course, discussion of an appropriate allocation of assets needs to include an assessment of one’s risk tolerance and time horizon, and we believe such an evaluation is best undertaken with a financial advisor or an investment professional.

As we remain focused on looking forward, 2008 also has been a year of growth for Forward Funds. In September, we added the Accessor Funds to the Forward Funds family. We now offer investors 31 mutual funds in no-load and load share classes, and we will continue to develop unique offerings in new and emerging asset classes that may contribute to an investor’s overall return and dampen volatility of their investment portfolio.

In fact, we have already launched the *Accessor Frontier Markets Fund*. This nascent area of the investment landscape is reminiscent of the emerging markets twenty years ago, and we are encouraged by the compelling growth rates of the frontier economies and their historically uncorrelated returns to other assets classes.

We remain deeply committed to helping our shareholders attain true portfolio diversification and achieve their long-term financial goals. We also believe that transparent practices give our investors access to the information they need to make important investment decisions. I invite you to review the information in this report and the performance of the Forward Funds in 2008, and thank you for the continued confidence that you place in our Funds.

Sincerely,



J. Alan Reid, Jr.
Chief Executive Officer
Forward Management, LLC

You should consider the investment objectives, risks, charges and expenses of the Accessor Funds carefully before investing. A prospectus with this and other information may be obtained by calling (800) 882-9612 or by downloading one from www.accessor.com. It should be read carefully before investing.

You should consider the investment objectives, risks, charges and expenses of the Forward Funds carefully before investing. A prospectus with this and other information may be obtained by calling (800) 999-6809 or by downloading one from www.forwardfunds.com. It should be read carefully before investing.

Small company stocks are generally riskier than large company stocks due to greater volatility and less liquidity. Investing in foreign securities, especially emerging markets will involve certain additional risks, including exchange rate fluctuation, less liquidity, greater volatility and less regulation.

There are risks involved with investing, including loss of principal. Past performance does not guarantee future results.

The discussions concerning the Funds included in this shareholder report may contain certain forward-looking statements about the factors that may affect performance of the Funds in the future, including the portfolio managers' outlook regarding economic, market, political, and other factors relevant to investment performance. These statements are based on the portfolio managers' expectations concerning certain future events and their expected impact on the Funds, and are current only through the date on the cover of this report. Forward-looking statements are inherently uncertain and are not intended to predict the future performance of the Funds. Actual events may cause adjustments in the portfolio managers' strategies from those currently expected to be employed, and the outlook of the portfolio managers is subject to change.

J. Alan Reid, Jr. is a registered representative of ALPS Distributors, Inc.

Accessor Funds are distributed by SEI Investments Distribution Co., which is not affiliated with Forward Management, LLC.

Forward Funds are distributed by ALPS Distributors, Inc.

Forward Small Cap Equity Fund

During the fourth quarter of 2008, the S&P 500 Index declined 21.9%, and the Dow Jones Industrial Average declined 18.4%, while the Russell 2000 Index declined 26.1%. For the year ended December 31, 2008, the S&P 500 declined 37.0%, while the Dow Jones Industrial Average declined 31.9% and the Russell 2000 declined 33.8%.

For the year, the Fund's Investor Class shares returned -39.02% and its benchmark, the Russell 2000 Index, returned -33.79%.

In the last months of the year, we continued to reposition the portfolio to less cyclical exposure, in favor of companies where growth can persist in either a strong or weak economy. We continued to lower our Financial and Producer Durables weightings, while adding to the Materials and Processing and Utilities sectors. We seek growth companies, not "defensive" names in these less cyclical industries and sectors, as well as special situations. Successful themes for the full year of 2008 included education, domestic security, aerospace and defense suppliers, energy, health care cost containment, energy infrastructure, suppliers to the telecom industry and consumer turnaround companies. We remain focused on company-specific stocks with accelerating growth catalysts, strong management teams, improving margins and companies whose dividends increase in line with earnings.

As was true during the third quarter and continuing its impact in the fourth quarter, when the Russell exchange-traded funds (Lefts) have sizeable in-flows on up days, active managers tend to perform poorly versus the Index due to their underweighting in lower-quality, illiquid companies; short coverings in these same stocks present another challenge, as does random selling by hedge funds going out of business. We avoid investing in such companies with poor balance sheets, risky futures and small market caps in favor of higher quality, more liquid, niche and market-leading companies with strong return on equity and without a need for external financing. These strong companies have historically assumed leadership one or two quarters into recovery.

In Autos and Transportation, we believe our leading truckers and other companies will benefit as weaker, more leveraged "mom and pops" or smaller companies are forced out of business. We repositioned our Consumer Discretionary weighting, emphasizing business services, dollar stores and auto repair. We maintained our positions in well-financed value restaurants, as consumers are continuing to trade down to quick-serve restaurants. In the Consumer Staples sector, we maintained our weighting during the final quarter of 2008.

We have lowered our weighting in the Financial Services sector. Significant turmoil in the credit markets made this sector very volatile in the last half of 2008. We did maintain our holdings in our more conservative banks and REITs which are not in need of capital. We continue to take a diversified approach in Financials, with some stable dividend generators as well as capital markets companies that will outperform in a market recovery.

We decreased our Health Care weighting during the last quarter. Although healthcare is traditionally considered to be recession resistant, the uncertainty surrounding the new administration priorities of health care and the negative impact of a rising dollar is hampering healthcare performance.

Our strongest performing sector against the benchmark index for the quarter was Materials and Processing. Our weighting increased through the addition of companies providing infrastructure services which will benefit from the proposed government spending program and strong stock performance. In

Forward Small Cap Equity Fund

Materials and Industrials, we are more diversified than usual, at times preferring a basket of two or three stocks rather than one, in order to deflect specific risk and in acknowledgement of uncertainty of the exact direction and beneficiaries of the infrastructure stimulus plan or other specific markets. Dividend yields are high, with low payout ratios in some of the well-established companies.

We maintained an overweight position in the Energy sector. Our investments have strong balance sheets, are in prolific gas plays and should benefit from consolidation of the industry. Over the years, we have found the time to invest in Energy stocks, particularly the well-funded gas producers when oil and gas prices are at their lows. While demand is weak, we expect consolidation of the industry will benefit strongly financed and well-positioned gas producers, and the beneficiaries of any clean energy program.

In the Technology sector, we continue to seek special situations with niche dominance that generates solid earnings growth, while avoiding secondary suppliers. We increased our weighting in Utilities during the quarter and we will continue to seek companies in the Utilities sector which we believe have specific advantages to enhance earnings.

In the midst of unprecedented uncertainty, our investment posture seeks stability consistent with investment opportunity. While underweight Financial Services, our fairly neutral sector positioning allows us to take advantage of a very rotational market. The volatility allows us to opportunistically purchase stocks of niche leading small cap companies within each industry or sector, as measured by market position, return on equity and capital, balance sheet strength and internally generated growth prospects. We are adopting a barbell approach of buying higher-growth companies at discounted multiples compared to their usually stratospheric valuations which we expect to recover rapidly in a market rebound, and also slower-growth companies with consistent earnings and unusually high dividend yields in the 3–4% range with low pay-out ratios and historical dividend growth.

Our investment strategy has always been to avoid companies with assets or liabilities we do not understand, questionable accounting, legal exposure or other imponderable risks and to sell stocks quickly if fundamentals deteriorate. While highly shorted stocks may create upward volatility in the short run, we believe that now is the time to invest in high-quality companies at reduced valuations which we believe will outperform over the next year.

We eschew riskier stocks (bad balance sheets, high multiples) to find “Baby Blue Chips,” self-funding growth companies with strong balance sheets, net cash positions, experienced management and business models which provide operating leverage and cash flow often 1.5 to 2 times earnings and in excess of capital expenditures. Excess free cash flow will benefit shareholders in the form of “pent up” growth (if the company has temporarily slowed down growth), increasing dividends or profitable acquisitions as industries consolidate. Thus, we believe we can find investments which have defensive characteristics as well as potential for strong recovery. As a reminder, current or future portfolio holdings are subject to risk.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market. The index figures do not reflect any deduction for fees, expenses, or taxes.

The S&P 500 Index is a capitalization-weighted index of 500 stocks traded on the NYSE, AMEX and OTC exchanges, and is comprised of industrial, financial, transportation and utility companies.

Forward Small Cap Equity Fund

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange. It has been a widely followed indicator of the U.S. stock market since October 1, 1928.

It is not possible to invest directly in an index.

Exchange-traded funds (ETFs) are index-based products that allow investors to buy or sell shares of entire portfolios of stock in a single security. It is a type of investment vehicle whose objective is to achieve the same return as a particular market, and is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index.

Valuation is the process of determining the value of an asset or company.

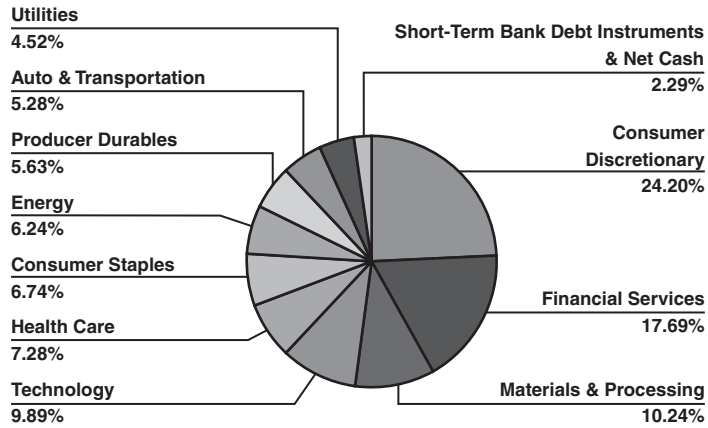
Return on Equity (ROE) is a measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested.

Baby Blue Chips are nationally recognized, well-established and financially sound small companies. Blue chips generally sell high-quality, widely accepted products and services and they're known to weather downturns and operate profitably in the face of adverse economic conditions, which helps to contribute to their long record of stable and reliable growth. The name "blue chip" came about because in the game of poker the blue chips have the highest value.

Small company stocks are generally riskier than large company stocks due to greater volatility and less liquidity. Asset allocation does not protect against risk or assure profit. There are risks involved with investing, including loss of principal. Past performance does not guarantee future results.

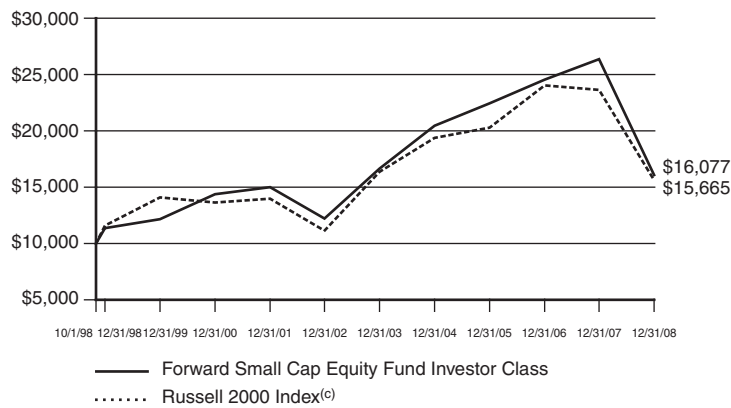
Forward Small Cap Equity Fund

Weightings by Sector as a Percentage of Net Assets as of December 31, 2008



These allocations may not reflect the current or future position of the portfolio.

Growth of \$10,000 Investment in the Fund



The chart above shows how a hypothetical investment of \$10,000 in the Fund at its inception would have performed versus an investment in the Fund's benchmark index. The values indicate what \$10,000 would have grown to over the time period indicated. The hypothetical example does not represent the returns of any particular investment.

Forward Small Cap Equity Fund

Forward Small Cap Equity Fund^(d)

	1 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION	INCEPTION DATE
Average Annual Total Return for the period ended December 31, 2008					
Investor Class	-39.02%	-0.74%	3.50%	4.74%	10/01/98
Institutional Class	-38.78%	-0.38%	N/A	2.18%	06/06/02
Class A (load adjusted) ^(a)	-42.48%	N/A	N/A	-5.96%	05/02/05
Class A (without load) ^(b)	-38.99%	N/A	N/A	-4.42%	05/02/05

(a) Includes the effect of the maximum 5.75% sales charge.

(b) Excludes sales charge.

(c) The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

(d) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Investment performance reflects fee waivers in effect. In the absence of fee waivers, total return would be lower. Total return is based on NAV, assuming reinvestment of all distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares. Performance data current to the most recent month end may be obtained at www.forwardfunds.com.

Small company stocks are generally riskier than large company stocks due to greater volatility and less liquidity.

The Fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund Form N-Q was filed for the quarters ended March 31, 2008 and September 30, 2008. The Fund Form N-Q is available on the SEC's website at www.sec.gov and may also be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the Fund proxy voting policies and procedures and how the Fund voted proxies relating to portfolio securities during the most recent 12 month period ended June 30, 2008 are available (i) without charge, upon request, by calling 1-800-999-6809 and (ii) on the Securities and Exchange Commission's website at www.sec.gov.

Forward Small Cap Equity Fund^(a) Disclosure of Fund Expenses (Unaudited) For the Six Months Ended December 31, 2008

As a shareholder of the Forward Funds, you incur two types of costs: (1) transaction costs, including applicable sales charges (loads); and (2) ongoing costs, including management fees, distribution and service (12b-1) fees, shareholder services fees and other Fund expenses. This example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The example is based on an investment of \$1,000 invested at the beginning of the (six-month) period and held for the entire period July 1, 2008 through December 31, 2008.

Actual Expenses

The first line for each share class of the Fund in the table provides information about actual account values and actual expenses. You may use this information, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the applicable line under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example For Comparison Purposes

The second line for each share class of the Fund in the table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that the expenses shown in the table below are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), redemption fees or exchange fees. Therefore, the second line for each share class of the Fund of the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. If these transactional costs were included, your costs would have been higher.

	BEGINNING ACCOUNT VALUE 07/01/08	ENDING ACCOUNT VALUE 12/31/08	EXPENSE RATIO ^(b)	EXPENSES PAID DURING PERIOD ^(c) 07/01/08-12/31/08
FORWARD SMALL CAP EQUITY FUND^(a)				
Investor Class				
Actual	\$1,000.00	\$ 651.10	1.61%	\$6.68
Hypothetical	\$1,000.00	\$1,017.04	1.61%	\$8.16
Institutional Class				
Actual	\$1,000.00	\$ 652.10	1.26%	\$5.23
Hypothetical	\$1,000.00	\$1,018.79	1.26%	\$6.39
Class A				
Actual	\$1,000.00	\$ 651.00	1.61%	\$6.68
Hypothetical	\$1,000.00	\$1,017.06	1.61%	\$8.15

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

(b) Annualized, based on the Portfolio's most recent fiscal half-year expenses.

(c) Expenses are equal to the Fund's annualized expense ratio multiplied by the average account value over the period, multiplied by the number of days in the most recent fiscal half year (184), then divided by 366.

Portfolio of Investments (Note 10)

Forward Small Cap Equity Fund^(a)

Shares		Value (Note 2)	Shares		Value (Note 2)
COMMON STOCKS: 97.71%					
Auto & Transportation: 5.28%					
62,400	Alaska Air Group, Inc. ^(b)	\$ 1,825,200	92,900	Waste Connections, Inc. ^(b)	\$ 2,932,853
42,200	Allegiant Travel Co. ^(b)	2,049,654	127,400	WMS Industries, Inc. ^(b)	3,427,060
116,200	Landstar System, Inc.	4,465,566			84,399,686
127,100	Old Dominion Freight Line, Inc. ^(b)	3,617,266			
80,300	Tidewater, Inc.	3,233,681			
81,200	Wabtec Corp.	3,227,700			
		18,419,067			
Consumer Discretionary: 24.20%					
309,800	99 Cents Only Stores ^(b)	3,386,114			
79,200	Advance Auto Parts, Inc.	2,665,080			
41,100	BJ's Wholesale Club, Inc. ^(b)	1,408,086			
118,300	The Buckle, Inc.	2,581,306			
179,900	Carter's, Inc. ^(b)	3,464,874			
41,400	Chipotle Mexican Grill, Inc., Class A ^(b)	2,565,972			
262,100	Corinthian Colleges, Inc. ^(b)	4,290,577			
206,500	Corrections Corp. of America ^(b)	3,378,340			
26,600	Deckers Outdoor Corp. ^(b)	2,124,542			
82,100	DeVry, Inc.	4,713,361			
85,800	Dollar Tree, Inc. ^(b)	3,586,440			
195,900	The GEO Group, Inc. ^(b)	3,532,077			
114,800	Guess ?, Inc.	1,762,180			
61,700	The Gymboree Corp. ^(b)	1,609,753			
166,200	Hibbett Sports, Inc. ^(b)	2,611,002			
40,700	ITT Educational Services, Inc. ^(b)	3,865,686			
134,400	J. Crew Group, Inc. ^(b)	1,639,680			
102,500	Jack in the Box, Inc. ^(b)	2,264,225			
141,300	Jos. A. Bank Clothiers, Inc. ^(b)	3,694,995			
234,100	Lululemon Athletica, Inc. ^(b)	1,856,413			
79,800	MSC Industrial Direct Co., Inc., Class A	2,939,034			
236,700	Navigant Consulting, Inc. ^(b)	3,756,429			
57,800	Panera Bread Co., Class A ^(b)	3,019,472			
123,100	Ritchie Bros. Auctioneers, Inc.	2,636,802			
199,500	Tetra Tech, Inc. ^(b)	4,817,925			
63,200	Tractor Supply Co. ^(b)	2,284,048			
66,500	Under Armour, Inc., Class A ^(b)	1,585,360			
Consumer Staples: 6.74%					
85,300	The Hain Celestial Group, Inc. ^(b)	1,628,377			
56,400	Hansen Natural Corp. ^(b)	1,891,092			
196,200	Lance, Inc.	4,500,828			
38,300	Nash Finch Co.	1,719,287			
173,500	Peet's Coffee & Tea, Inc. ^(b)	4,033,875			
76,900	Sensient Technologies Corp.	1,836,372			
156,300	Spartan Stores, Inc.	3,633,975			
240,800	United Natural Foods, Inc. ^(b)	4,291,056			
					23,534,862
Energy: 6.24%					
85,100	Bill Barrett Corp. ^(b)	1,798,163			
106,600	Cabot Oil & Gas Corp.	2,771,600			
46,100	CARBO Ceramics, Inc.	1,637,933			
98,500	Carrizo Oil & Gas, Inc. ^(b)	1,585,850			
79,800	Comstock Resources, Inc. ^(b)	3,770,550			
106,700	Concho Resources, Inc. ^(b)	2,434,894			
247,700	EXCO Resources, Inc. ^(b)	2,244,162			
93,100	Goodrich Petroleum Corp. ^(b)	2,788,345			
138,700	Newfield Exploration Co. ^(b)	2,739,325			
					21,770,822
Financial Services: 17.69%					
105,500	Advent Software, Inc. ^(b)	2,106,835			
144,000	Corporate Office Properties Trust	4,420,800			
111,100	Digital Realty Trust, Inc.	3,649,635			
26,900	Essex Property Trust, Inc.	2,064,575			
93,300	FactSet Research Systems, Inc.	4,127,592			
94,600	Financial Federal Corp.	2,201,342			
306,900	First Niagara Financial Group, Inc.	4,962,573			
140,600	Glacier Bancorp, Inc.	2,674,212			
84,800	Hancock Holding Co.	3,855,008			
60,300	Huron Consulting Group, Inc. ^(b)	3,453,381			

Portfolio of Investments (Note 10)

Forward Small Cap Equity Fund^(a)

Shares		Value (Note 2)	Shares		Value (Note 2)
Financial Services (continued): 17.69%			Producer Durables: 5.63%		
188,800	Investment Technology Group, Inc. ^(b)	\$ 4,289,536	190,400	American Ecology Corp.	\$ 3,851,792
186,000	KBW, Inc. ^(b)	4,278,000	78,200	AMETEK, Inc.	2,362,422
251,300	Knight Capital Group, Inc., Class A ^(b)	4,058,495	31,900	Esterline Technologies Corp. ^(b)	1,208,691
185,100	optionsXpress Holdings, Inc.	2,472,936	58,900	Gardner Denver, Inc. ^(b)	1,374,726
120,400	PrivateBancorp, Inc.	3,908,184	43,100	Graco, Inc.	1,022,763
61,200	Prosperity Bancshares, Inc.	1,810,908	46,800	Harsco Corp.	1,295,424
131,300	Signature Bank ^(b)	3,766,997	26,000	Itron, Inc. ^(b)	1,657,240
79,500	Stifel Financial Corp. ^(b)	3,645,075	142,100	Powell Industries, Inc. ^(b)	4,123,742
		61,746,084	119,100	Woodward Governor Co.	2,741,682
					19,638,482
Health Care: 7.28%			Technology: 9.89%		
89,400	Amedisys, Inc. ^(b)	3,695,796	69,400	ANSYS, Inc. ^(b)	1,935,566
177,400	AMERIGROUP Corp. ^(b)	5,236,848	62,700	CACI International, Inc., Class A ^(b)	2,827,143
45,600	Gen-Probe, Inc. ^(b)	1,953,504	108,100	Digital River, Inc. ^(b)	2,680,880
31,700	Haemonetics Corp. ^(b)	1,791,050	148,500	F5 Networks, Inc. ^(b)	3,394,710
240,651	Healthcare Services Group, Inc.	3,833,570	90,200	GeoEye, Inc. ^(b)	1,734,546
119,700	HMS Holdings Corp. ^(b)	3,772,944	218,700	Interwoven, Inc. ^(b)	2,755,620
52,100	ICU Medical, Inc. ^(b)	1,726,594	224,100	j2 Global Communications, Inc. ^(b)	4,490,964
86,400	Magellan Health Services, Inc. ^(b)	3,383,424	36,700	ManTech International Corp., Class A ^(b)	1,988,773
		25,393,730	111,100	Salesforce.com, Inc. ^(b)	3,556,311
Materials & Processing: 10.24%			170,600	SRA International, Inc., Class A ^(b)	2,942,850
115,300	Aecom Technology Corp. ^(b)	3,543,169	149,700	Viasat, Inc. ^(b)	3,604,776
37,300	Ameron International Corp.	2,346,916	174,500	Websense, Inc. ^(b)	2,612,265
82,900	Bemis Co., Inc.	1,963,072			34,524,404
38,900	Clean Harbors, Inc. ^(b)	2,467,816	Utilities: 4.52%		
124,600	Cliffs Natural Resources, Inc.	3,191,006	136,300	Aqua America, Inc.	2,806,417
74,400	Granite Construction, Inc.	3,268,392	101,900	Atmos Energy Corp.	2,415,030
19,000	Greif, Inc., Class A	635,170	81,600	New Jersey Resources Corp.	3,210,960
51,000	The Lubrizol Corp.	1,855,890	60,400	Northwest Natural Gas Co.	2,671,492
244,900	McDermott International, Inc. ^(b)	2,419,612	28,200	Piedmont Natural Gas Co., Inc.	893,094
106,800	Perini Corp. ^(b)	2,496,984	29,900	South Jersey Industries, Inc.	1,191,515
66,800	Texas Industries, Inc.	2,304,600	103,800	Vectren Corp.	2,596,038
94,800	URS Corp. ^(b)	3,864,996			15,784,546
70,300	Valmont Industries, Inc.	4,313,608	Total Common Stocks		
58,900	The Valspar Corp.	1,065,501	(Cost \$331,338,482)		
		35,736,732			340,948,415

Portfolio of Investments (Note 10) Forward Small Cap Equity Fund^(a)

Par Value	Value (Note 2)
SHORT-TERM BANK DEBT INSTRUMENTS: 0.06%	
\$222,582	
CitiBank — Nassau 0.060%, due 01/02/09	\$ 222,582
Total Short -Term Bank Debt Instruments (Cost \$222,582)	222,582
Total Investments: 97.77% (Cost \$331,561,064)	341,170,997
Net Other Assets and Liabilities: 2.23%	7,782,101
Net Assets: 100.00%	\$348,953,098

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

(b) Non-income producing security.

Percentages are stated as a percent of net assets.

Statement of Assets and Liabilities

	FORWARD SMALL CAP EQUITY FUND^(a)
ASSETS:	
Investments, at value	\$ 341,170,997
Receivable for investments sold	13,208,195
Receivable for shares sold	855,473
Interest and dividends receivable	212,999
Other assets	30,418
Total Assets	<u>355,478,082</u>
LIABILITIES:	
Payable for investments purchased	5,030,399
Payable for shares redeemed	851,253
Payable to advisor	302,485
Payable for distribution and service fees	59,382
Payable to trustees	10,108
Payable for chief compliance officer fee	2,800
Payable to ReFlow (Note 2)	91
Accrued expenses and other liabilities	268,466
Total Liabilities	<u>6,524,984</u>
NET ASSETS	<u>\$ 348,953,098</u>
NET ASSETS CONSIST OF:	
Paid-in capital (Note 7)	\$ 508,428,547
Accumulated net realized loss on investments	(169,085,382)
Net unrealized appreciation on investments	9,609,933
TOTAL NET ASSETS	<u>\$ 348,953,098</u>
INVESTMENTS, AT COST	<u>\$ 331,561,064</u>
PRICING OF SHARES	
Investor Class:	
Net Asset Value, offering and redemption price per share	\$ 11.98
Net Assets	\$ 202,874,120
Shares of beneficial interest outstanding	16,937,514
Institutional Class:	
Net Asset Value, offering and redemption price per share	\$ 12.37
Net Assets	\$ 141,441,966
Shares of beneficial interest outstanding	11,437,362
Class A:	
Net Asset Value, offering and redemption price per share	\$ 12.01
Net Assets	\$ 4,637,012
Shares of beneficial interest outstanding	386,100
Maximum offering price per share (NAV/0.9425, based on maximum sales charge of 5.75% of the offering price)	\$ 12.74

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

Statement of Operations

For the Year Ended December 31, 2008

	FORWARD SMALL CAP EQUITY FUND^(a)
INVESTMENT INCOME:	
Interest	\$ 299,100
Dividends	4,279,918
Securities lending income	526,835
Total Investment Income	<u>5,105,853</u>
EXPENSES:	
Investment advisory fee	5,111,615
Administrative fee	313,695
Custodian fee	42,635
Legal and audit fee	130,231
Transfer agent fee	354,040
Trustees' fees and expenses	33,970
Registration/filing fees	42,157
Reports to shareholder and printing fees	208,255
Distribution and service fees	
Investor Class	1,077,475
Class A	29,402
ReFlow fees (Note 2)	2,227
Chief compliance officer fee	38,818
Other	55,563
Total expenses	<u>7,440,083</u>
NET INVESTMENT LOSS:	<u>(2,334,230)</u>
Net realized loss on investments	(159,629,883)
Net change in unrealized depreciation on investments	(64,887,240)
NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS	<u>(224,517,123)</u>
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u><u>\$(226,851,353)</u></u>

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

Statement of Changes in Net Assets

	FORWARD SMALL CAP EQUITY FUND^(a)	
	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 31, 2007
OPERATIONS:		
Net investment loss	\$ (2,334,230)	\$ (5,580,867)
Net realized gain/(loss) on investments	(159,629,883)	36,156,985
Net change in unrealized appreciation/(depreciation) on investments	(64,887,240)	8,581,379
Net increase/(decrease) in net assets resulting from operations	<u>(226,851,353)</u>	<u>39,157,497</u>
DISTRIBUTIONS TO SHAREHOLDERS:		
From net investment income		
Investor Class	(658,693)	—
Institutional Class	(445,669)	—
Class A	(14,937)	—
From net realized gains on investments		
Investor Class	—	(41,501,537)
Institutional Class	—	(18,296,457)
Class A	—	(1,261,289)
Total distributions	<u>(1,119,299)</u>	<u>(61,059,283)</u>
SHARE TRANSACTIONS:		
Investor Class		
Proceeds from sale of shares	95,030,108	116,604,915
Issued to shareholders in reinvestment of distributions	577,403	36,800,098
Cost of shares redeemed	(139,931,255)	(160,796,369)
Net decrease from share transactions	<u>(44,323,744)</u>	<u>(7,391,356)</u>
Institutional Class		
Proceeds from sale of shares	113,576,735	51,864,339
Issued to shareholders in reinvestment of distributions	440,730	18,227,210
Cost of shares redeemed	(65,974,983)	(23,196,231)
Net increase from share transactions	<u>48,042,482</u>	<u>46,895,318</u>
Class A		
Proceeds from sale of shares	4,225,380	554,634
Issued to shareholders in reinvestment of distributions	9,119	157,985
Cost of shares redeemed	(7,154,591)	(4,132,740)
Net decrease from share transactions	<u>(2,920,092)</u>	<u>(3,420,121)</u>
Net increase/(decrease) in net assets	<u>\$ (227,172,006)</u>	<u>\$ 14,182,055</u>
NET ASSETS:		
Beginning of period	576,125,104	561,943,049
End of period (including accumulated net investment income of \$0 and \$125,681, respectively)	<u>\$ 348,953,098</u>	<u>\$ 576,125,104</u>
Other Information:		
SHARE TRANSACTIONS:		
Investor Class		
Sold	5,911,298	5,348,025
Distributions reinvested	49,435	1,842,776
Redeemed	(8,631,923)	(7,504,797)
Net decrease in shares outstanding	<u>(2,671,190)</u>	<u>(313,996)</u>
Institutional Class		
Sold	7,017,362	2,312,521
Distributions reinvested	36,575	887,403
Redeemed	(4,434,797)	(1,056,531)
Net increase in shares outstanding	<u>2,619,140</u>	<u>2,143,393</u>
Class A		
Sold	246,334	25,490
Distributions reinvested	779	7,895
Redeemed	(414,557)	(181,483)
Net decrease in shares outstanding	<u>(167,444)</u>	<u>(148,098)</u>

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

Financial Highlights

For a share outstanding throughout the periods presented.

Forward Small Cap Equity Fund

	INVESTOR CLASS				
	YEAR ENDED DECEMBER 31, 2008 ^(a)	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	YEAR ENDED DECEMBER 31, 2005	YEAR ENDED DECEMBER 31, 2004
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 19.71	\$ 20.47	\$ 19.40	\$ 18.45	\$ 16.17
INCOME/(LOSS) FROM OPERATIONS:					
Net investment loss	(0.11)	(0.22)	(0.16)	(0.14)	(0.17)
Net realized and unrealized gain/(loss) on investments	(7.58)	1.76	1.96	1.91	3.86
Total from Investment Operations	(7.69)	1.54	1.80	1.77	3.69
LESS DISTRIBUTIONS:					
From investment income	(0.04)	—	—	—	—
From capital gains	—	(2.30)	(0.75)	(0.82)	(1.41)
Total Distributions	(0.04)	(2.30)	(0.75)	(0.82)	(1.41)
REDEMPTION FEES ADDED TO PAID IN CAPITAL	—	0.00 ^(b)	0.02	0.00 ^(b)	0.00 ^(b)
NET INCREASE/(DECREASE) IN NET ASSET VALUE	(7.73)	(0.76)	1.07	0.95	2.28
NET ASSET VALUE, END OF PERIOD	\$ 11.98	\$ 19.71	\$ 20.47	\$ 19.40	\$ 18.45
TOTAL RETURN	(39.02)%	7.36%	9.34%	9.63%	22.77%
RATIOS/SUPPLEMENTAL DATA:					
Net Assets, End of Period (in 000s)	\$202,874	\$386,404	\$407,848	\$323,125	\$187,230
RATIOS TO AVERAGE NET ASSETS:					
Net investment loss including reimbursement/waiver/ repayment of previously waived fees	(0.60)%	(1.05)%	(0.79)%	(0.96)%	(1.21)%
Operating expenses including reimbursement/waiver/ repayment of previously waived fees	1.65%	1.71% ^(d)	1.69%	1.73% ^(c)	1.78%
Operating expenses excluding reimbursement/waiver	n/a	n/a	1.71%	1.98%	1.80%
PORTFOLIO TURNOVER RATE	313%	232%	210%	181%	207%

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

(b) Amount represents less than \$0.01 per share.

(c) Effective July 1, 2005, the net expense limitation changed from 1.89% to 1.69%.

(d) Effective January 2, 2007, the Advisor had not agreed to limit the expenses.

Financial Highlights

For a share outstanding throughout the periods presented.

Forward Small Cap Equity Fund

	INSTITUTIONAL CLASS				
	YEAR ENDED DECEMBER 31, 2008 ^(a)	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	YEAR ENDED DECEMBER 31, 2005	YEAR ENDED DECEMBER 31, 2004
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 20.27	\$ 20.93	\$ 19.77	\$ 18.71	\$ 16.31
INCOME/(LOSS) FROM OPERATIONS:					
Net investment loss	(0.07)	(0.16)	(0.05)	(0.08)	(0.07)
Net realized and unrealized gain/(loss) on investments	(7.79)	1.80	1.95	1.96	3.88
Total from Investment Operations	(7.86)	1.64	1.90	1.88	3.81
LESS DISTRIBUTIONS:					
From investment income	(0.04)	—	—	—	—
From capital gains	—	(2.30)	(0.75)	(0.82)	(1.41)
Total Distributions	(0.04)	(2.30)	(0.75)	(0.82)	(1.41)
REDEMPTION FEES ADDED TO PAID IN CAPITAL	—	0.00 ^(b)	0.01	0.00 ^(b)	0.00 ^(b)
NET INCREASE/(DECREASE) IN NET ASSET VALUE	(7.90)	(0.66)	1.16	1.06	2.40
NET ASSET VALUE, END OF PERIOD	\$ 12.37	\$ 20.27	\$ 20.93	\$ 19.77	\$ 18.71
TOTAL RETURN	(38.78)%	7.67%	9.63%	10.08%	23.31%
RATIOS/SUPPLEMENTAL DATA:					
Net Assets, End of Period (in 000s)	\$141,442	\$178,787	\$139,716	\$34,442	\$10,491
RATIOS TO AVERAGE NET ASSETS:					
Net investment loss including reimbursement/waiver/ repayment of previously waived fees	(0.25)%	(0.70)%	(0.47)%	(0.53)%	(0.76)%
Operating expenses including reimbursement/waiver/ repayment of previously waived fees	1.30%	1.37% ^(c)	1.34%	1.34%	1.34%
Operating expenses excluding reimbursement/waiver	n/a	n/a	1.39%	1.66%	1.48%
PORTFOLIO TURNOVER RATE	313%	232%	210%	181%	207%

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

(b) Amount represents less than \$0.01 per share.

(c) Effective January 2, 2007, the Advisor had not agreed to limit the expenses.

Financial Highlights

For a share outstanding throughout the periods presented.

Forward Small Cap Equity Fund

	CLASS A			
	YEAR ENDED DECEMBER 31, 2008 ^(a)	YEAR ENDED DECEMBER 31, 2007	YEAR ENDED DECEMBER 31, 2006	PERIOD ENDED DECEMBER 31, 2005 ^(b)
NET ASSET VALUE, BEGINNING OF PERIOD	\$ 19.75	\$ 20.49	\$ 19.41	\$ 17.13
INCOME/(LOSS) FROM OPERATIONS:				
Net investment loss	(0.22)	(0.28)	(0.22)	(0.10)
Net realized and unrealized gain/(loss) on investments	(7.48)	1.84	2.02	3.20
Total from Investment Operations	<u>(7.70)</u>	<u>1.56</u>	<u>1.80</u>	<u>3.10</u>
LESS DISTRIBUTIONS:				
From investment income	(0.04)	—	—	—
From capital gains	—	(2.30)	(0.75)	(0.82)
Total Distributions	<u>(0.04)</u>	<u>(2.30)</u>	<u>(0.75)</u>	<u>(0.82)</u>
REDEMPTION FEES ADDED TO PAID IN CAPITAL	—	0.00 ^(c)	0.03	0.00 ^(c)
NET INCREASE/(DECREASE) IN NET ASSET VALUE	<u>(7.74)</u>	<u>(0.74)</u>	<u>1.08</u>	<u>2.28</u>
NET ASSET VALUE, END OF PERIOD	<u>\$ 12.01</u>	<u>\$ 19.75</u>	<u>\$ 20.49</u>	<u>\$ 19.41</u>
TOTAL RETURN^(d)	(38.99)%	7.45%	9.39%	18.13% ^(e)
RATIOS/SUPPLEMENTAL DATA:				
Net Assets, End of Period (in 000s)	\$ 4,637	\$10,934	\$14,379	\$23,090
RATIOS TO AVERAGE NET ASSETS:				
Net investment loss including reimbursement/waiver/repayment of previously waived fees	(0.60)%	(0.96)%	(0.71)%	(0.82)% ^(f)
Operating expenses including reimbursement/waiver/repayment of previously waived fees	1.61%	1.62% ⁽ⁱ⁾	1.59%	1.69% ^{(f)(g)}
Operating expenses excluding reimbursement/waiver	n/a	n/a	1.59%	1.92% ^(f)
PORTFOLIO TURNOVER RATE	313%	232%	210%	181% ^(h)

(a) Prior to May 1, 2008, the Forward Small Cap Equity Fund was known as the Forward Hoover Small Cap Equity Fund.

(b) The Fund began offering Class A shares on May 2, 2005.

(c) Amount represents less than \$0.01 per share.

(d) Total return assumes dividend reinvestment and does not reflect the effect of sales charges.

(e) Not Annualized.

(f) Annualized.

(g) Effective July 1, 2005, the net expense limitation changed from 1.89% to 1.69%.

(h) Portfolio turnover rate is calculated at the Fund level and represents the year ended December 31, 2005.

(i) Effective January 2, 2007, the Advisor had not agreed to limit the expenses.

Notes to Financial Statements

1. Organization

Forward Funds (the “Trust”), a Delaware statutory trust, is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). As of December 31, 2008, the Trust has 32 registered funds. This annual report describes one portfolio offered by the Trust. The accompanying financial statements and financial highlights are those of the Forward Small Cap Equity Fund (prior to May 1, 2008, known as the Forward Hoover Small Cap Equity Fund) (the “Fund”). The Fund seeks to achieve high total returns and invest primarily in the equity securities of companies that have small market capitalization and offer future growth potential.

The Fund offers Investor Class, Institutional Class and Class A shares.

All classes of shares have identical rights to earnings, assets and voting privileges, except for class specific expenses and exclusive rights to vote on matters affecting only individual classes.

Class A shares are subject to an initial sales charge of up to 5.75% imposed at the time of purchase. Class A shares of the Fund for which no initial sales charge was paid are subject to a contingent deferred sales charge (“CDSC”) of 1.00% if the shares are sold within eighteen months, in accordance with the Fund’s prospectus. The amount of the CDSC is determined as a percentage of the lesser of the current market value or the cost of shares being redeemed.

The Fund may invest a high percentage of its assets in specific sectors of the market. As a result, the economic and regulatory developments in a particular sector of the market, positive or negative, can have a greater impact on the Fund’s net asset value and may cause its shares to fluctuate more than if the Fund did not concentrate in investments in a particular sector.

2. Significant Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Fund. These policies are in conformity with accounting principles generally accepted in the United States of America.

Portfolio Valuation: Portfolio securities or contracts that are listed or traded on a national securities exchange, contract market or over-the-counter market and that are freely transferable are valued at the last reported sale price or a market’s official closing price on the valuation day, or, if there have been no sales that day, at the average of the last reported bid and ask price on the valuation day for long positions or ask prices for short positions. If no bid or ask prices are quoted before closing, such securities or contracts are valued at either the last available sale price or at fair value.

Portfolio securities that are primarily traded on foreign securities exchanges are valued at the preceding closing values of such securities on their respective exchanges, except when an occurrence subsequent to the time a value was so established is likely to have changed such value. In such an event, the fair value of those securities are determined in good faith through consideration of other factors in accordance with procedures established by, and under the general supervision of, the Board of Trustees.

Forward currency exchange contracts have a market value determined by the prevailing foreign currency exchange daily rates and current foreign currency exchange forward rates. The foreign currency exchange forward rates are

Notes to Financial Statements

calculated using an automated system that estimates rates on the basis of the current day foreign currency exchange rates and forward foreign currency exchange rates supplied by a pricing service. Foreign exchange rates and forward foreign currency exchange rates may generally be obtained at the close of the NYSE, normally 4:00 p.m. Eastern Time.

Redeemable securities issued by open-end registered investment companies are valued at the investment company's applicable net asset value, with the exception of exchange-traded open-end investment companies, which are priced as equity securities.

All other securities and other assets are carried at their fair value as determined in good faith using methodologies approved by the Board of Trustees. The valuation methodologies include, but are not limited to, the analysis of the effect of any restrictions on the sale of the security, product development and trends of the security's issuer, changes in the industry and other competing companies, significant changes in the issuer's financial position and any other event that could have a significant impact on the value of the security.

Securities Transactions and Investment Income: Securities transactions are accounted for on a trade date basis. Net realized gains or losses on sales of securities are determined by the identified cost method. Interest income, adjusted for accretion of discounts and amortization of premiums, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date, except that certain dividends from foreign securities where the ex-dividend date may have passed are recorded as soon as the Fund is informed of such dividends in the exercise of reasonable diligence.

Foreign Currency Translation: The books and records of the Fund are maintained in U.S. dol-

lars. Investment valuations and other assets and liabilities initially expressed in foreign currencies are converted each business day into U.S. dollars based upon current exchange rates. Prevailing foreign exchange rates may generally be obtained at the close of the NYSE, normally 4:00 p.m. Eastern Time. As available and as provided by an appropriate pricing service, translation of foreign security and currency market values may also occur with the use of foreign exchange rates obtained at approximately 11:00 a.m. Eastern Time, which approximates the close of the London Exchange. The portion of unrealized gains or losses on investments due to fluctuations in foreign currency exchange rates is not separately disclosed.

Cash Management Transactions: The Fund subscribes to the Brown Brothers Harriman & Co. ("BBH") Cash Management Service ("CMS"). The BBH CMS is an investment product that automatically sweeps the Fund's cash balances into overnight offshore time deposits with either the BBH Grand Cayman branch or a branch of a pre-approved, world class commercial bank. This fully automated program allows the Fund to earn interest on cash balances while remaining diversified. Excess cash invested with deposit institutions domiciled outside of the United States, as with any offshore deposit, may be subject to sovereign actions in the jurisdiction of the deposit institution including, but not limited to, freeze, seizure or diminution. The Fund bears the risk associated with the repayment of principal and payment of interest on such instruments by the institution with which the deposit is ultimately placed. Balances in the CMS are accounted for on a cost basis.

Lending of Portfolio Securities: The Fund from time to time may lend portfolio securities to broker-dealers, banks or institutional borrowers of securities. The loans are secured by collateral in the form of cash that is equal to at least 102%

Notes to Financial Statements

of the fair value of the securities loaned plus accrued interest, if any. Upon lending its securities to third parties, the Fund receives compensation in the form of income on the investment of the cash collateral. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Fund. The Fund has the right under the lending agreement to recover the securities from the borrower on demand, and loans are subject to termination by the lending Fund or the borrower at any time. While the lending Fund does not have the right to vote securities on loan, it intends, to the extent practicable, to terminate the loan and regain the right to vote if the matter to be voted upon is considered significant with respect to the investment. Additionally, the Fund does not have the right to sell or repledge collateral received in the form of securities unless the borrower goes into default. The risks to the Fund of securities lending are that the borrower may not provide additional collateral when required or return the securities when due. The Fund receives cash collateral which is invested in the Brown Brothers Investment Trust Securities Lending Investment Fund. This collateral must be valued daily and should the market value of the loaned securities increase the borrower must furnish additional collateral to the lending Fund. During the time portfolio securities are on loan, the borrower pays the lending Fund the economic equivalent of any dividends or interest paid on such securities. In the event the borrower defaults on its obligation to the lending Fund, the lending Fund could experience delays in recovering its securities and possible capital losses. At December 31, 2008, the Fund had no securities on loan.

Foreign Securities: The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include

possible revaluation of currencies, the inability to repatriate funds, less complete financial information about companies and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers.

Fair Value Measurements: The Fund adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157 (“FAS 157”), “Fair Value Measurements,” on January 1, 2008. FAS 157 established a three-tier hierarchy to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability that are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability that are developed based on the best information available.

Various inputs are used in determining the value of the Fund’s investments as of the reporting period end. The designated input levels are not necessarily an indication of the risk or liquidity associated with these investments. These inputs are categorized in the following hierarchy under applicable financial accounting standards:

Level 1—Quoted prices in active markets for identical investments

Level 2—Other significant observable inputs (including quoted prices for similar

Notes to Financial Statements

investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3—Significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

The following is a summary of the inputs used to value the Fund’s investments as of December 31, 2008.

VALUATION INPUTS	INVESTMENTS IN SECURITIES	OTHER FINANCIAL INSTRUMENTS ^(a)
Level 1—Quoted Prices	\$341,170,997	—
Level 2—Other Significant		
Observable Inputs	—	—
Level 3—Significant		
Unobservable Inputs	—	—
Total	<u>\$341,170,997</u>	<u>—</u>

(a) Other financial instruments are derivative instruments not reflected in the Portfolio of Investments, such as written options, short sales, currency contracts, futures, forward contracts and swap contracts.

For the year ended December 31, 2008, the Fund did not have significant unobservable inputs (Level 3) used in determining fair value. Therefore, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

Distributions to Shareholders: Dividends from net investment income, if any, are declared and paid annually for the Fund. Net realized capital gains, if any, are distributed annually.

Income and capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from accounting principles generally accepted in the United States of America. Therefore, the source of the Fund’s distributions may be shown in the accompanying financial statements as either from or in excess of net investment income or net realized gain, or from paid-in-capital, depending upon the type of book/tax differences that may exist.

The Fund recharacterizes distributions received from Real Estate Investment Trust (“REITs”) investments based on information provided by the REITs into the following categories: ordinary income, long-term capital gains, and return of capital. If information is not available on a timely basis from the REITs, the recharacterization will be estimated based on available information which may include the previous year’s allocation. If new or additional information becomes available from the REITs at a later date, a recharacterization will be made in the following year. The Fund records as dividend income the amount recharacterized as ordinary income and as realized gain the amount recharacterized as long-term capital gain in the Statement of Operations, and the amount recharacterized as a return of capital as a reduction to the cost of investments in the Statement of Assets and Liabilities and in the Portfolio of Investments. These recharacterizations are reflected in the accompanying financial statements.

Federal Income Taxes: The Trust treats the Fund as a separate entity for Federal income tax purposes. The Fund intends to continue to qualify each year as a “regulated investment company” under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). By so qualifying, the Fund will not be subject to Federal income taxes to the extent that it distributes substantially all of its taxable or tax-exempt income, if any, for its tax year ending December 31. In addition, by distributing in each calendar year substantially all of its net investment income, capital gains and certain other amounts, if any, the Fund will not be subject to a Federal excise tax. Therefore, no provision is made by the Fund for Federal income or excise taxes. Withholding taxes on foreign dividends are paid or provided for in accordance with the applicable country’s tax rules and rates.

Notes to Financial Statements

As of and during the period ended December 31, 2008, the Fund did not have a liability for any unrecognized tax benefits in the accompanying financial statements. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the period, the Fund did not incur any interest or penalties.

The Fund's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

Expenses: Expenses that are specific to the Fund or class of shares of the Fund are charged directly to the Fund or share class. Expenses that are common to all Funds in the Trust generally are allocated among the Funds in the Trust by proportion to their average daily net assets. The Fund offers multiple share classes and all of the realized and unrealized gains and losses and net investment income, other than class specific expenses, are allocated daily to each class in proportion to its average daily net assets. Fees provided under the distribution (Rule 12b-1) and/or shareholder service plans for a particular class of the Fund are charged to the operations of such class.

When-Issued and Delayed-Delivery Transactions: The Fund may purchase securities on a when-issued or delayed-delivery basis. The Fund will engage in when-issued and delayed-delivery transactions only for the purpose of acquiring portfolio securities consistent with its investment objective and policies and not for investment leverage. When-issued securities are securities purchased for delivery beyond the normal settlement date at a stated price and yield and thereby involve a risk that the yield obtained in the transaction will be less than that available in the market when delivery takes place. The Fund will not pay for such securities or start earning interest on them until they are received. When the Fund agrees to purchase securities on a

when-issued basis, the custodian will set aside in a segregated account cash or liquid securities equal to the amount of the commitment. Securities purchased on a when-issued basis are recorded as an asset and are subject to changes in value based upon changes in the value of the security or general level of interest rates. In when-issued and delayed-delivery transactions, the Fund relies on the seller to complete the transaction; the seller's failure to do so may cause the Fund to miss an advantageous price or yield.

ReFlow Transactions: The Fund may participate in ReFlow, a program designed to provide an alternative liquidity source for mutual funds experiencing redemptions of their shares. In order to pay cash to shareholders who redeem their shares on a given day, a mutual fund typically must hold cash in its portfolio, liquidate portfolio securities, or borrow money, all of which impose certain costs on the fund. ReFlow provides participating mutual funds with another source of cash by standing ready to purchase shares from a fund equal to the amount of the fund's net redemptions on a given day. ReFlow then generally redeems those shares when the fund experiences net sales. In return for this service, the Fund will pay a fee to ReFlow at a rate determined by a daily auction with other participating mutual funds. The costs to a Fund for participating in ReFlow are expected to be influenced by and comparable to the cost of other sources of liquidity, such as the Fund's short-term lending arrangements or the costs of selling portfolio securities to meet redemptions. ReFlow will be prohibited from acquiring more than 3% of the outstanding voting securities of the Fund.

ReFlow Management Co., LLC, the entity that facilitates the day-to-day operations of ReFlow, is under common control with Forward Management, LLC ("Forward Management" or the "Advisor"), the investment advisor to the Fund.

Notes to Financial Statements

In light of this, the Board of Trustees has adopted certain procedures to govern the Fund's participation in ReFlow. ReFlow fees that were incurred by the Fund during the year ended December 31, 2008 are recorded in the Statement of Operations.

3. Investment Management Services

The Trust has entered into an investment management agreement with Forward Management pursuant to which Forward Management provides investment management services to the Fund and is entitled to receive a fee calculated daily and payable monthly at the following annual rates, as of December 31, 2008, based on the Fund's average daily net assets: 1.05% on assets up to and including \$500 million and 1.00% on assets over \$500 million.

The Trust and Forward Management have entered into an investment sub-advisory agreement with Hoover Investment Management Co., LLC ("Hoover" or the "Sub-Advisor") for the Fund. Pursuant to this agreement, the Sub-Advisor provides investment sub-advisory services to the Fund and is entitled to receive a fee from Forward Management calculated daily and payable monthly at the following annual rates based on the Fund's average daily net assets of 0.70% on assets up to and including \$100 million and 0.55% on assets over \$100 million.

Expense Limitations

In previous years, the Advisor had agreed to limit the total expenses of the classes of the Fund, exclusive of brokerage costs, interest, taxes, dividends and extraordinary expenses. Pursuant to these agreements, the Fund will reimburse the Advisor for any fee waivers made by the Advisor, provided that any such reimbursements made by a Fund to the Advisor will not cause the Fund's expense limitation to exceed expense limitations

in existence at the time the expense was incurred or at the time of the reimbursement, whichever is lower, and the reimbursement is made within three years after the expenses were incurred. During the year ended December 31, 2008, the Advisor had not agreed to limit the expenses of the Fund.

For the year ended December 31, 2008, there were no fee waivers and recoupment of previously waived fees for the Fund.

At December 31, 2008, the balance of recoupable expenses for the Fund were as follows:

CLASS	2006	2007	2008	TOTAL
Investor Class	\$90,296	N/A	N/A	\$90,296
Institutional Class	13,607	N/A	N/A	13,607
Class A	744	N/A	N/A	744

4. Distribution Plans and Shareholder Services Plans

The Fund has adopted service and distribution plans pursuant to Rule 12b-1 under the 1940 Act (each a "Distribution Plan"). Under the Distribution Plan for the Investor Class shares of the Fund, the Fund pays distribution fees on a monthly basis at an annual rate of up to 0.25% of the average daily net assets attributable to Investor Class shares. Under the Distribution Plan for the Class A shares of the Fund, the Fund pays distribution fees on a monthly basis at an annual rate of up to 0.35% of the average daily net assets attributable to Class A shares.

In addition, the Fund has adopted a shareholder services plan (the "Shareholder Services Plan") for Investor Class, Institutional Class and Class A shares that may be used to pay shareholder servicing fees at an annual rate of up to 0.15% of the Fund's average daily net assets attributable to Investor Class shares, up to 0.05% of the Fund's average daily net assets attributable to Institutional Class shares, and up to 0.20% of the Fund's average daily net assets attributable to Class A shares, effective May 1, 2008. Prior to May 1, 2008,

Notes to Financial Statements

the Shareholder Services Plan allowed payment of shareholder servicing fees by Investor Class and Class A shares at an annual rate of up to 0.10% of the Fund's average daily net assets attributable to Investor Class or Class A shares. Prior to May 1, 2008, the Shareholder Services Plan for the Institutional Class shares of the Fund did not allow shareholder services fees.

The expenses of the Distribution and Shareholder Services Plans are reflected as distribution and service fees in the Statement of Operations. For the year ended December 31, 2008, Institutional Class shares of the Fund were not subject to distribution fees.

ALPS Distributors, Inc. (the "Distributor") serves as the Fund's distributor. The Distributor acts as an agent for the Fund and the distributor of its shares.

ALPS Fund Services, Inc. ("AFS") serves as the Fund's administrator.

AFS serves as the Fund's transfer agent and dividend paying agent.

Brown Brothers Harriman & Co. ("BBH") is the Fund's custodian.

5. Trustees

The overall responsibility for oversight of the Fund rests with the Board of Trustees of the Trust. As of December 31, 2008, there were four Trustees, three of whom are not "interested persons" of the Trust within the meaning of that term under the 1940 Act, (each, an "Independent Trustee"). Effective September 1, 2008, the Trust pays each Independent Trustee a retainer fee in the amount of \$25,000 per year, \$10,000 each per regular meeting for attendance in person, \$5,000 each per regular meeting for attendance by telephone and \$3,000 each for attendance in person at each special meeting that is not held in conjunction with a regular meeting, and \$2,250 for

attendance at a special telephonic meeting. The Chairman of the Board of Trustees and the Chairman of the Audit Committee each receive a special retainer fee in the amount of \$10,000 per year. The interested Trustee receives no compensation from the Trust.

Prior to September 1, 2008, the Trust paid each Independent Trustee a retainer fee in the amount of \$14,000 per year, \$6,500 each per regular meeting for attendance in person, \$4,000 each per regular meeting for attendance by telephone and \$1,000 each for attendance in person at each special meeting that is not held in conjunction with a regular meeting, and \$750 for attendance at a special telephonic meeting. The Chairman of the Board of Trustees and the Chairman of the Audit Committee each received a special retainer fee in the amount of \$6,000 per year. The Vice-Chairman of the Audit Committee (if such a Vice-Chairman is appointed) received a special retainer fee in the amount of \$3,000 per year. The interested Trustee received no compensation from the Trust.

6. Indemnifications

Under the Fund's organizational documents, its officers and Trustees are indemnified against certain liability arising out of the performance of their duties to the Fund. In addition, in the normal course of business, the Fund enters into contracts with vendors and others that provide general indemnification. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund. Based on experience, however, the Fund expects the risk of loss to be remote.

7. Shares of Beneficial Interest

The capitalization of the Trust consists of an unlimited number of shares of beneficial interest with no par value per share. The Board of Trust-

Notes to Financial Statements

ees may establish additional Funds and classes of shares at any time in the future without shareholder approval. Holders of shares of the Funds of the Trust have one vote for each share held and a proportionate fraction of a vote for each

fractional share. All shares issued and outstanding are fully paid and are non-assessable, transferable and redeemable at the option of the shareholder. Shares have no pre-emptive rights.

The following entities owned of record or beneficially, as of December 31, 2008, 5% or greater of any class of the Fund's outstanding equity securities:

CLASS	NAME	PERCENTAGE
Investor Class	Charles Schwab & Co., Inc.	29.19%
	National Financial Services, Corp.	15.07%
	SEI Private Trust Co.	8.46%
	New York Life Trust Co.	7.98%
Institutional Class	Prudential Investment Management	49.32%
	Charles Schwab & Co., Inc.	14.43%
	National Financial Services, Corp.	5.29%
Class A	Sutton Place Associates, LLC	33.44%
	JPMorgan Chase Bank	23.22%
	AST Capital Trust Co.	13.75%

Sutton Place Associates, LLC is an entity under common control with Forward Management.

8. Purchases and Sales of Investments

Purchases and sales of investment securities, excluding temporary short-term securities, were \$1,497,406,936 and \$1,498,303,193, respectively, during the year ended December 31, 2008.

9. Tax Basis Information

Reclassifications: At December 31, 2008, permanent differences in book and tax accounting were reclassified. These differences had no effect on net assets and were primarily attributed to differences in book and tax distributions and treatment of net investment loss. These reclassifications were as follows:

Decrease Paid In-Capital	\$(3,327,848)
Increase Accumulated Net Investment Income	3,327,848

Included in the amount reclassified was a net operating loss offset to Paid In-Capital of \$2,208,649.

Tax Basis of Investments: At December 31, 2008, the aggregate cost of investments, gross unrealized appreciation/(depreciation) and net unrealized appreciation/(depreciation) for Federal tax purposes were as follows:

Cost of Investments	\$343,983,986
Gross Unrealized Appreciation	\$ 26,517,074
Gross Unrealized Depreciation	<u>(29,330,063)</u>
Net Unrealized Depreciation	\$ (2,812,989)

Notes to Financial Statements

Post October Loss: Under the current tax law, capital losses realized after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. For the fiscal year ended December 31, 2008, the Fund elected to defer capital losses occurring between November 1, 2008 and December 31, 2008 in the amount of \$67,868,898.

Capital Loss Carryforwards: At December 31, 2008, the Fund had available for Federal income tax purposes unused capital losses of \$88,793,562, which expire December 31, 2016.

Tax Basis of Distributable Earnings: At December 31, 2008, the following components of accumulated earnings on a tax basis were as follows:

Post-October losses	\$ (67,868,898)
Accumulated capital loss carryforwards	(88,793,562)
Net unrealized depreciation on investments	<u>(2,812,989)</u>
Total distributable earnings	\$(159,475,449)

Tax Basis of Distributions to Shareholders: Income and long-term capital gain distributions are determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States. The tax character of distributions paid during the year ended December 31, 2008, was characterized as follows:

Ordinary Income	\$1,119,299
Long-Term Capital Gain	0

10. Portfolio of Investments

The investment categories used in this report may differ from the industry classification categories used for determining compliance with industry concentration restrictions and requirements applicable to the Fund.

11. New Accounting Standards

In March 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 161 (“FAS 161”), “Disclosures about Derivative Instruments and Hedging Activities”. FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Trust is currently evaluating the impact the adoption of FAS 161 will have on the Fund’s financial statement disclosures.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Forward Small Cap Equity Fund (formerly known as Forward Hoover Small Cap Equity Fund)

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Forward Small Cap Equity Fund (formerly known as Forward Hoover Small Cap Equity Fund, the “Fund”) at December 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Fund’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2008 by correspondence with the custodian, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
San Francisco, California
February 23, 2009

Tax Information (Unaudited)

Pursuant to Section 852(b)(3) of the Internal Revenue Code, the Fund had no long-term capital gains dividends to designate.

Approval of the Investment Management Agreement and Investment Sub-Advisory Agreement (Unaudited)

The Board of Trustees (the “Board”) of the Trust oversees the management of the Funds and, as required by law, initially approves, and determines annually whether to renew, the investment Advisory Agreement and sub-Advisory Agreement for management of the Funds.

At an in-person meeting of the Board held on September 16, 2008, the Board, including a majority of the Trustees who are not “interested persons” of the Trust (as defined in the 1940 Act) (the “Independent Trustees”), approved the Amended and Restated Investment Management Agreement (the “Advisory Agreement”) between Forward Management and the Trust on behalf of the Forward Small Cap Equity Fund (the “Fund,” and together with the other existing series of the Trust, the “Funds”).

Also at the September 16, 2008 meeting, the Board, including a majority of the Independent Trustees, approved the renewal of the Amended and Restated Investment Sub-Advisory Agreement (the “Sub-Advisory Agreement”) among the Trust, Forward Management and Hoover Investment Management Co., LLC (the “Sub-Advisor”) on behalf of the Fund. Forward Management employs the Sub-Advisor pursuant to the Sub-Advisory Agreement for the day-to-day management of the Fund.

Collectively, the Advisory Agreement and Sub-Advisory Agreement are referred to herein as the “Agreements.”

In connection with this meeting, the Board, through counsel to the Trust and Independent Trustees and through the administrator of the Fund, requested information to enable the Trustees to evaluate the terms of the Agreements. In response, Forward Management and the Sub-Advisor provided materials to the Board for its evaluation. In considering whether to approve the renewal of each Agreement, the Board also

reviewed supplementary information, including comparative industry data with regard to investment performance, advisory fees and expenses, financial and profitability information regarding Forward Management and the Sub-Advisor, and information about the personnel providing investment management and administrative services to the Fund. In addition, during the course of each year, the Trustees receive a wide variety of materials relating to the services provided by Forward Management and the Sub-Advisor. At each of its quarterly meetings, the Board reviews Fund investment performance and a significant amount of information relating to Fund operations, including the Trust’s compliance program, shareholder services, valuation, custody, distribution, and other information relating to the nature, extent and quality of services provided by Forward Management and the Sub-Advisor to the Fund.

Discussed below are the factors the Board considered in approving the Agreements. This discussion is not intended to be all-inclusive. The Board reviewed a variety of factors and considered a significant amount of information, including information received on an ongoing basis at Board and committee meetings. The approval determinations were made on the basis of each Board member’s business judgment after consideration of all of the information taken as a whole. Individual Board members may have given different weights to certain factors and assigned various degrees of materiality to information in connection with the approval process.

In evaluating each of the Agreements, the Board, including the Independent Trustees, principally considered the following factors, among others: (i) the nature, extent and quality of the services to be provided by Forward Management and the Sub-Advisor; (ii) the investment performance of the Fund and the Sub-Advisor; (iii) the reasonableness of investment advisory compensation to

Approval of the Investment Management Agreement and Investment Sub-Advisory Agreement (Unaudited)

be paid and a comparative analysis of expense ratios of, and advisory fees paid by, similar funds; (iv) the profits to be realized by Forward Management and the Sub-Advisor from their relationship with the Fund; (v) the extent to which the fees to be paid to Forward Management reflect economies of scale; and (vi) if applicable, any benefits derived or to be derived by Forward Management or a Sub-Advisor from its relationship with the Fund, such as soft dollar arrangements. The Board also considered the ability of Forward Management and the Sub-Advisor to provide an appropriate level of support and resources to the Fund and whether Forward Management and the Sub-Advisor have sufficiently qualified personnel. The Board also considered the overall financial soundness of Forward Management and the Sub-Advisor as it relates to their ability to provide services to the Fund.

Additional discussion of certain of these factors follows:

Nature, extent and quality of the services

Advisory Agreement. The Board considered the nature of the services to be provided under the Advisory Agreement. The Board considered the ability of Forward Management to provide an appropriate level of support and resources to the Fund and whether Forward Management has sufficiently qualified personnel. The Board noted the background and experience of Forward Management's senior management. The Board also noted that because the series of the Trust are Forward Management's principal investment advisory clients, the expertise of, and amount of attention expected to be given to the Fund by, Forward Management's management team is substantial. The Board considered Forward Management's ability to attract and retain qualified business professionals. The Board also determined that Forward Management has made a commitment to the recruitment and retention

of high quality personnel, and maintains the financial and operational resources reasonably necessary to manage the Fund. The Board also favorably considered Forward Management's entrepreneurial commitment to the management and success of the Fund, which entails a substantial financial and professional commitment.

The Board also considered Forward Management's compliance operations with respect to the Fund, including the measures taken by Forward Management to assist the Fund in complying with Rule 38a-1 under the 1940 Act. The Board noted that personnel at Forward Management represented that the firm had no significant compliance or administrative problems over the past year and that no deficiencies were found by any independent audit. The Board also considered the services provided by Forward Management as a "manager of managers." In this connection, the Board noted that Forward Management has been active in monitoring the performance of the Sub-Advisor.

Sub-Advisory Agreement. The Board considered the benefits to shareholders of continuing to retain the Sub-Advisor, particularly in light of the nature, extent, and quality of services to be provided by the Sub-Advisor. The Board considered that the Sub-Advisor had represented that it had no significant compliance or administrative problems over the past year and that no material deficiencies were found by any independent audit. The Board considered the quality of the management services provided or expected to be provided to the Fund over both the short and long term and the organizational depth and stability of the Sub-Advisor, including the background and experience of the Sub-Advisor's senior management and the expertise of and amount of attention expected to be given to the Fund by the portfolio management team. In this connection, the Board has received presentations from portfolio management personnel from the

Approval of the Investment Management Agreement and Investment Sub-Advisory Agreement (Unaudited)

Sub-Advisor and has discussed investment results with such personnel. The Board also considered the Sub-Advisor's compliance operations with respect to the Fund, including the assessment of the Sub-Advisor's compliance program by the Trust's Chief Compliance Officer pursuant to Rule 38a-1 under the 1940 Act. In conducting its review, the Board was aided by assessments of personnel at Forward Management and the various presentation materials (including presentations made by representatives of the Sub-Advisor to the Board) during the course of the year.

The Board concluded that it was satisfied with the nature, extent and quality of the services provided by Forward Management under the Advisory Agreement and of the Sub-Advisor under the Sub-Advisory Agreement.

Investment Performance

In considering information about the Fund's historical performance, the Board was provided with a comparative analysis of the performance of the Fund relative to certain comparable funds and relevant market indices for certain periods, including annual performance information and cumulative performance information. In assessing performance of the Sub-Advisor, the Board also considered that the Sub-Advisor had served as a Sub-Advisor to the Fund since its inception.

The Trustees noted that as a general matter the Fund had periods of outperformance compared to its respective benchmark index and peer groups over time. Specifically, the Board noted that the Fund outperformed its peer group median for the one-year, three-year and five-year periods ended June 30, 2008.

Performance information for each class of shares of the Fund, including performance relative to the Fund's benchmark index, is contained in this Report under the heading "Fund Performance."

The Board determined, after consideration of the performance and strategy for the Fund, that the Sub-Advisor should continue to serve under the Sub-Advisory Agreement subject to supervision of the Board and Forward Management, and that Forward Management should continue to serve under the Advisory Agreement subject to the supervision of the Board.

Profitability and Reasonableness of Advisory Compensation

The Board considered the cost of services to be provided and profits to be realized by Forward Management from its relationship with the Fund, including the overall financial soundness of Forward Management. The Board considered financial information previously provided by Forward Management, which showed a strong balance sheet with an operating loss for more recent periods. The Board noted that Forward Management has been responsive to inquiries over time regarding the firm's financial resources and ability to serve as the investment advisor to the Funds, and the Board has been satisfied with this information. The Board also considered that Forward Management has historically waived fees or reimbursed the various series of the Trust, including the Fund, for certain operating expenses that exceeded stated expense limits and that amounts waived or reimbursed by Forward Management in total have been substantial. The Board also noted that Forward Management has been willing to incur expenses to replace sub-advisors when necessary.

The Board also considered information regarding the investment management fee charged to the Fund by Forward Management and operating expense comparisons for the Fund compared with other comparable registered investment companies. The Board noted that the investment management fees to be paid to Forward Management with respect to the Fund were within the range of the gross investment

Approval of the Investment Management Agreement and Investment Sub-Advisory Agreement (Unaudited)

management fees charged to the group of similar investment companies presented to the Board.

The Board noted that Forward Management's business currently consists of managing the Funds and that Forward Management does not currently manage a significant amount of investment accounts other than the Funds, and so it is not possible to compare the fees charged to the Funds with fees charged to other non-investment company clients of Forward Management because relevant comparisons are not available. The Board also noted that Forward Management is responsible for compensation of the Funds' sub-advisor and that the overall expense ratio of each class of shares of the Fund is currently limited by Forward Management pursuant to contractual expense limitation agreements.

The Board concluded that Forward Management's profitability with respect to the Fund was not excessive and that the advisory fees charged to the Fund were reasonable in light of the services provided to the Fund.

Sub-Advisory Agreement. With respect to the fees paid to the Sub-Advisor, the Board considered information regarding the advisory fees charged by the Sub-Advisor to its other clients, and sub-advisory fees charged by other investment advisors to registered investment companies with similar investment objectives and strategies. The Board noted that the sub-advisory fees are paid by Forward Management out of Forward Management's advisory fee and negotiated between Forward Management and the Sub-Advisor.

The Board considered the operating results and financial condition of the Sub-Advisor based on the financial information the Sub-Advisor had provided. The Trustees noted that it was difficult to accurately determine or evaluate the profitability of the Sub-Advisory Agreement because

the Sub-Advisor managed assets other than the Fund and, further, that any such assessment would involve assumptions regarding the Sub-Advisor's allocation policies, capital structure, cost of capital, business mix and other factors. Additionally, with respect to profitability, the Board considered that the Sub-Advisor's fees will be paid by Forward Management and not the Fund, at a rate negotiated between Forward Management and the Sub-Advisor. Based on the prior information provided and the nature of the negotiation underlying the Sub-Advisory Agreement, the Board concluded that it was reasonable to infer that the Sub-Advisor's profitability with respect to the Fund was not excessive and that the sub-advisory fees charged to the Fund were reasonable in light of the services provided to the Fund.

Economies of scale

The Board considered the potential of Forward Management and the Fund to experience economies of scale as the Fund grows in size. The Board concluded that, considering the size and operating history of the Fund and the fee and financial information considered by the Board, the current fee structures reflected in the Agreements are appropriate. The Board also noted that it would have the opportunity to periodically re-examine whether the Fund had achieved economies of scale, and the appropriateness of management fees payable to Forward Management, in the future.

Any additional benefits and other considerations

The Board considered ancillary benefits to be received by Forward Management as a result of Forward Management's relationship with the Fund, including the fees paid by the Fund to ReFlow Management Co., LLC, a company that is affiliated with Forward Management, for the Fund's participation in ReFlow, a program

Approval of the Investment Management Agreement and Investment Sub-Advisory Agreement (Unaudited)

designed to provide an alternative liquidity source for mutual funds experiencing redemptions of their shares. The Board concluded that any potential benefits to be derived by Forward Management from its relationship with the Fund include potential for larger assets under management and reputational benefits, which are consistent with those generally derived by investment advisors to mutual funds.

The Board considered any benefits to be derived by the Sub-Advisor from its relationship with the Fund, such as soft dollar arrangements. In this connection, the Board has received regular reports from the Advisor and the Sub-Advisor regarding its soft dollar policies and usage. The Board considered ancillary benefits to be received by the Sub-Advisor as a result of the Sub-Advisor's relationship with the Trust. The Board concluded that any potential benefits to be

derived by the Sub-Advisor from its relationship with the Fund included potential for larger assets under management and reputational benefits which are consistent with those generally derived by advisors or sub-advisors to mutual funds.

Based on the Trustees' deliberations and their evaluation of the information described above, the Board, including all of the Independent Trustees, found that: (i) the compensation payable under each Agreement is fair and bears a reasonable relationship to the services to be rendered; and (ii) the renewal of the Advisory Agreement and the Sub-Advisory Agreement is in the best interests of the Fund and its shareholders. Based on the Trustees' deliberations and their evaluation of the information described above, the Trustees, including all of the Independent Trustees, unanimously approved the renewal of the Advisory Agreement and the Sub-Advisory Agreement.

Additional Company Information (Unaudited)

The business and affairs of the Trust and each Fund are managed under the direction of the Trust's Board of Trustees. Information pertaining to the Trustees and Officers of the Trust is set forth below. You can find more information about the Trustees in the Statement of Additional Information (SAI) which is available without charge by calling (800) 999-6809.

INDEPENDENT TRUSTEES:

Name, Address, and Age*	Position(s) Held with the Trust	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee***
Haig G. Mardikian Age: 61	Chairman	Since 1998+	Owner of Haig G. Mardikian Enterprises, a real estate investment business (1971 to present); General Partner of M&B Development, a real estate investment business (1982 to present); General Partner of George M. Mardikian Enterprises, a real estate investment business (1983 to 2002); President and Director of Adiuvana-Invest, Inc., a real estate investment business (1983 to present); Vice Chairman and Trustee of the William Saroyan Foundation (1992 to present). Mr. Mardikian served as Managing Director of the United Broadcasting Company, radio broadcasting (1983 to 2001) and Chairman and Director of SIFE Trust Fund (1978 to 2002). Trustee of the International House of UC Berkeley (term: 2001 to 2007); Director of the Downtown Association of San Francisco (1982 to 2006); Director of the Market Street Association (1982 to 2006); Trustee of Trinity College (1998 to 2006); Trustee of the Herbert Hoover Presidential Library (1997 to present); Trustee of the Herbert Hoover Foundation (2002 to present); Trustee of the Advisor California Civil Liberties Public Education Fund (1997 to 2006) Director of The Walnut Management Co (2008 to present).	31	None
Donald O'Connor Age: 72	Trustee	Since 2000+	Financial Consultant (1997 to present); Retired Vice President of Operations, Investment Company Institute ("ICI"), a mutual fund trade association (1969 to 1993); Executive Vice President and Chief Operating Officer, ICI Mutual Insurance Company, an insurance company (1987 to 1997); Chief, Branch of Market Surveillance, Securities and Exchange Commission (1964 to 1969).	31	Trustee of the Advisors Series Trust (15) (1997 to present).

Additional Company Information (Unaudited)

Name, Address, and Age*	Position(s) Held with the Trust	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee***
DeWitt F. Bowman Age: 78	Trustee, Audit Committee Chairman	Since 2006 (Director of Forward Funds, Inc. since 2000)+	Principal, Pension Investment Consulting, a consulting company (1994 to present); Interim Treasurer and Vice President for Investments, Regents of the University of California (2000 to 2001); Treasurer of Pacific Pension Institute, a non-profit education organization (1994 to 2002); Treasurer of Edgewood Center for Children and Families, a non-profit care center (1994 to 2004); Director, Episcopal Diocese of California, a non-profit religious organization (1964 to present); Director RREEF America Fund, a real estate investment trust (1994 to 2006); Trustee of the Pacific Gas and Electric Nuclear Decommissioning Trust Fund, a nuclear decommissioning trust (1994 to present).	31	Trustee, Brandes Institutional International Fund (May 1995 to present); Trustee, RREEF America III (December 2002 to present); Trustee, Sycuan Funds (September 2003 to present); Trustee, Brandes Sep Man Acct Reserve Trust (February 2005 to present); Trustee, PCG Private Equity Fund, (March 1994 to present).

Additional Company Information (Unaudited)

INTERESTED TRUSTEE:

Name, Address, and Age*	Position(s) Held with the Trust	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee***
J. Alan Reid, Jr. **** Age: 46	President, Trustee	Since 2001+	Chief Executive Officer of Forward Management, LLC, an investment advisor (2001 to present); Chief Executive Officer and Director, ReFlow Management Co., LLC, an investment services company (2001 to present); Chief Executive Officer and Director, ReFlow Fund, an investment services company (2002 to present); Chief Executive Officer, Sutton Place Management, an investment management company (2001 to present); Chief Executive Officer, Sutton Place Associates, LLC, an investment services company, (2001 to present); Chief Executive Officer, FISCOP, LLC, (2001 to present); Chief Executive Officer, Broderick Management, LLC, an investment management company (2001 to present); Senior Vice President, Director of Business Delivery, Morgan Stanley Online, a financial services company (1999 to 2001); Executive Vice President and Treasurer, Webster Investment Management Co., LLC (1998 to 1999); Vice President, Regional Director, Investment Consulting Services, Morgan Stanley, Dean Witter, Discover & Co., a financial services company (1992 to 1998); Vice President of the Board of Trustees of Centerpoint, a public health and welfare organization (1997 to present); Advisory Board Member, Finaplex, a software company (2002 to present); Advisory Board of SunGard Expert Solutions (1998 to present).	31	Director, FOLIOfn, Inc. (2002 to present).

* Each Trustee may be contacted by writing to the Trustee, c/o Forward Management, LLC, 433 California Street, 11th Floor, San Francisco, CA 94104.

** Each Trustee will hold office for an indefinite term until the earliest of (i) the next meeting of shareholders, if any, called for the purpose of considering the election or re-election of such Trustee and until the election and qualification of his successor, if any, elected at such meeting; or (ii) the date a Trustee resigns or retires, or a Trustee is removed by the Board of Trustees or shareholders, in accordance with the Trust's Declaration of Trust.

*** This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934 (i.e., public companies) or other investment companies registered under the 1940 Act. The parenthetical number represents the number of portfolios within a fund or fund complex.

**** Mr. Reid is considered an interested Trustee because he acts as Chief Executive Officer of Forward Management, LLC, the Funds' investment advisor, and holds other positions with an affiliate of the Trust.

+ Each Trustee, other than Mr. Bowman has served as Trustee to the Trust since May 1, 2005. However, beginning on the date indicated in the chart, each Trustee served as a director for the nine series of Forward Funds, Inc., which were reorganized as series of the Trust effective July 1, 2005. Mr. Bowman was appointed as Trustee effective January 1, 2006, and served as a director for the nine series of Forward Funds, Inc. since 2000.

Additional Company Information (Unaudited)

OFFICERS:

Name, Address, and Age*	Position(s) Held with the Trust	Term of Office and Length of Time Served**	Principal Occupation(s) During Past Five Years	Number of Funds in Fund Complex Overseen by Trustee
Barbara H. Tolle 433 California Street 11 th Floor San Francisco, CA 94104 Age: 59	Treasurer	Since 2006	Director of Fund Accounting and Operations, Forward Management (since 2006); Vice President and Director, Fund Accounting and Administration, PFPC Inc. (1999-2006).	N/A
Mary Curran 433 California Street 11 th Floor San Francisco, CA 94104 Age: 61	Secretary	Since 2004**	Chief Legal Officer, Forward Management (since 2002); Chief Legal Officer, ReFlow Management Co., LLC (since 2002); General Counsel, Morgan Stanley Online (1997-2002).	N/A
Judith M. Rosenberg 433 California Street 11 th Floor San Francisco, CA 94104 Age: 60	Chief Compliance Officer and Chief Legal Officer	Since 2006	Chief Compliance Officer, Forward Management (since 2005); First Vice President and Senior Attorney, Morgan Stanley (1984-2005).	N/A

* Each officer shall hold office at the pleasure of the Board of Trustees until the next annual meeting of the Trust or until his or her successor is duly elected and qualified, or until he or she dies, resigns, is removed or becomes disqualified.

** Ms. Curran has served as an officer of the Trust since May 1, 2005. However, beginning on the date indicated in the chart, Ms. Curran served as an officer for the nine series of Forward Funds, Inc., which were reorganized as series of the Trust effective July 1, 2005.

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Investment Advisor
Forward Management, LLC

Administrator
ALPS Fund Services, Inc.

Distributor
ALPS Distributors, Inc.

Counsel
Dechert LLP

Independent Registered Public Accounting Firm
PricewaterhouseCoopers, LLP

Custodian
Brown Brothers Harriman & Co.

Transfer Agent
ALPS Fund Services, Inc.

FORWARD FUNDS

Forward Funds
P.O. Box 1345
Denver, CO 80201
(800) 999-6809
www.forwardfunds.com

Emerging Markets

Forward Emerging Markets Fund

International

Forward International Equity Fund
Forward International Small Companies Fund

Core

Forward Large Cap Equity Fund

Small Cap

Forward Banking and Finance Fund
Forward Growth Fund
Forward Small Cap Equity Fund
Forward Mini-Cap Fund
Forward Legato Fund

Alternative Strategies

Forward Long/Short Credit Analysis Fund
Forward International Fixed Income Fund
Forward Real Estate Fund

