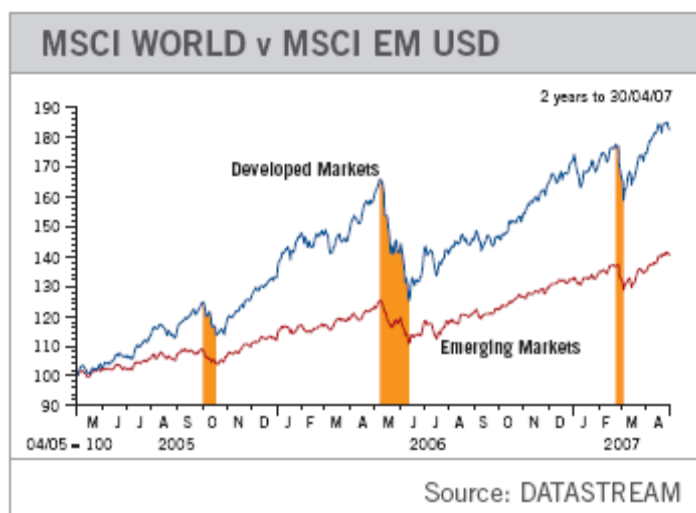
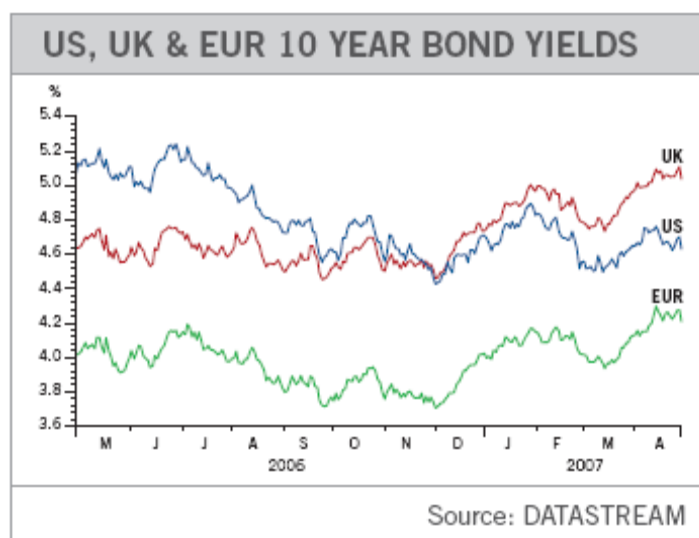


Most markets swept aside February's setback as if it hadn't really happened, soaring to new or longtime highs, propelled by abundant liquidity and easy credit in the hands of M&A predators and private equity. With a three-way pull of slower US growth, still firm commodity prices and niggling inflation concerns, bond prices are likely to stay range-bound, while developed market equities still look reasonably priced on relative valuation grounds; emerging equities on the other hand look fully valued. We make no changes to our asset allocation.

Global equity markets continued their robust advance in April. The MSCI World index gained 4.5 per cent (TR USD) as European markets reached six-year highs, with Germany up 9.7 per cent and France up 8.1 per cent. The Dow Jones Industrial Average broke through 13,000 to a new all-time high. Japan, with little to excite investors' animal spirits, continued to lag, falling by 1.9 per cent (MSCI Japan), but the MSCI Pacific ex-Japan managed a healthy 5.1 per cent recovery from its March setback. Emerging markets also moved ahead, by 4.6 per cent, although Eastern Europe was held back by Russia's 2.7 per cent drop, largely due to weakness in Gazprom. India bounced back strongly with a gain of 12.1 per cent, while South Africa was up 8.2 per cent as commodity prices stayed firm and the rand appreciated. In Turkey the disputed presidential appointment sent the market down 5.9 per cent on the final trading day, but still left prices up a similar amount over the month as a whole.



Bond yields rose in response to strong growth in Europe and sticky inflation in the US, where 10-year treasuries closed at a 4.63 per cent yield, up from 4.45 per cent at the end of March. In the UK, where inflation continued to surprise on the upside, 10-year bond yields pushed strongly through the 5 per cent level.



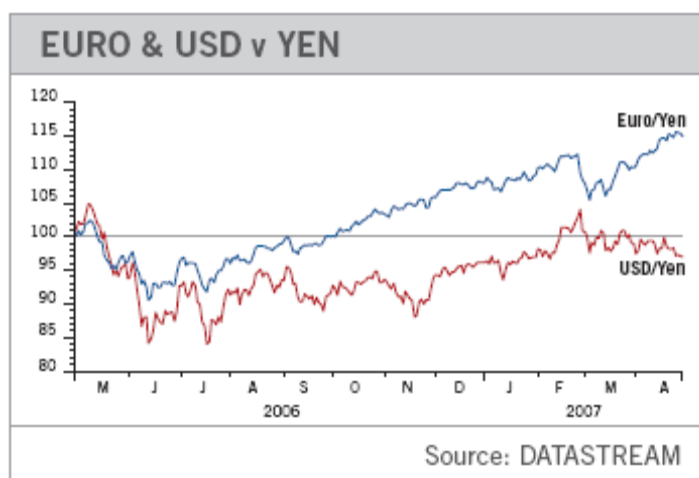
Markets are being propelled by powerful liquidity and in particular by continuing M&A activity. Big deals included Barclays' USD90bn bid for ABN Amro, trumped by a near USD100bn intervention from an RBS-led consortium; PPR, the French luxury goods group, went for Puma, while private equity groups continued to hunt down perceived underperformers. Last month's victims included a compliant Boots Alliance, while KKR's thrust at Sainsbury's has provoked several predatory investors to take unwelcome stakes, hoping to force the venerable British supermarket to disgorge its property portfolio. In the US, Alcoa is exploring the sale of its consumer and packaging operations, while IBM announced a USD15bn stock buy-back programme. Positive earnings surprises from the investment banks and from a companies as diverse such as Amazon, Corning and Boeing, have encouraged the market further.

All this activity is taking place against a background of slowing growth in the US accompanied by a weak dollar and robust growth in Europe and Asia. US corporate earnings are clearly benefiting from growing role of overseas sales as well as the benefit of currency translation factors. Investors seem to be calculating that the US slowdown will check consumer demand that, together with a weaker dollar, will partly rectify the imbalances of the current global cycle. This view assumes that the US slowdown will not be so severe as to curtail expansion elsewhere, but will ultimately enable a mid-cycle correction to extend the period of global growth. This view, which we largely agree with, depends on fixed-income markets remaining calm in the face of niggling inflationary pressures. With employment growth strong, evidence of rising wage rates in Western economies needs to be offset by the continued relocation to lower wage economies of manufacturing and, increasingly, of service functions. Rising commodity prices also remain a threat—not only to corporate profit margins but also because of the likely tightening reaction of central banks.

But for the moment it is the availability of abundant credit to quoted companies and private equity firms that is driving markets forward. Only the truly mega-cap companies can feel secure from the attentions of predators and corporate activists—and even Citicorp has been rumored as a break-up candidate.

FORWARD FUNDS

Among the major markets Japan alone has been relatively immune from the takeover frenzy. Until now it has been difficult for foreign businesses to acquire Japanese firms, since they were required to establish a listed company on the TSE and use this company's shares for a share-based acquisition. However, from this May new rules enable foreign companies to use their overseas-listed shares to buy Japanese operations. Given that the market cap to revenue ratio in Japan tends to be lower than for similarly sized Western companies, Japanese companies are ostensibly tempting to Western predators. According to Nomura, Japanese firms accounted for just 0.3 per cent of worldwide M&A in 2006. That said, Japan's intangible cultural barriers may keep things that way.



Asset Allocation

Despite the rise in equities and the fall in bond prices in April, we still think stocks are attractive relative to fixed-income assets. Bond yields are likely to be range-bound as slower US growth coincides with firm commodity prices and the expectation of stronger growth towards the end of the year. Equities, on the other hand, are likely to make further progress as conditions of excess liquidity persist. Our greatest concern is that this benign scenario is so widely accepted. However, since retail investors have yet to join in, the market advance enthusiastically suggests that a market peak is some way off.

Regional Allocation

We are making no changes to our regional positions, remaining overweight in Japan and the US. Japan has lagged badly, but given the outperformance from Europe we prefer not to make any adjustments at current relative valuation levels. We are underweight in Asia and in Emerging Markets relative to developed markets, reflecting the compression of valuation differentials between the two—particularly in price/book valuations, which for Emerging Markets are at levels that have historically preceded a correction.

FORWARD FUNDS

Sector Allocation

Sector weights are also unchanged, with Healthcare (especially in the US) favoured, alongside with IT, Financials, Industrials and Consumer Discretionary stocks. Underweight positions are held in Materials, Utilities, Energy and Consumer Staples.

MODEL PORTFOLIO ALLOCATION (%)			
	Benchmark*	PAM	May 07 v Apr 07
May 2007	End Apr 07	Relative	Change in
		Weight	Recommended
			Weight
BALANCED			
Bonds	50.0	-15	-
Equities	50.0	+15	-
Cash	0.0	=	-
	100.0		-
REGIONAL EQUITY			
North America	51.1	++	-
Europe	34.0	--	-
Japan	10.5	+	-
Pacific ex-Japan	4.4	=	-
	100.0		-
SECTOR EQUITY			
Energy	9.1	-	-
Materials	6.3	--	-
Industrials	10.9	+	-
Consumer Discretionary	11.3	+	-
Consumer Staples	8.3	-	-
Health Care	9.0	++	-
Financials	25.9	+	-
Information Technology	10.1	+	-
Telecoms	4.6	=	-
Utilities	4.5	--	-
	100.0		-

* all regional and sector benchmark weights based on MSCI World Index in USD

Foreign securities generally involve additional risks including social and political instability, liquidity, greater volatility and less regulation.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Index is adjusted to reflect reinvestment of dividends. The index figures do not reflect any deduction for fees, expenses or taxes.

The Morgan Stanley Capital International World Index (MSCI World) is an unmanaged index composed of more than 1,400 stocks listed on exchanges in the US, Europe, Canada, Australia, New Zealand and the Far East. The Index is adjusted to reflect reinvestment of dividends. The index figures do not reflect any deduction for fees, expenses or taxes.

FORWARD FUNDS

The MSCI BRIC Equity Index combines, on a market capitalization weighted basis, the components of the MSCI Brazil, MSCI Russia, MSCI India and MSCI China Equity Indices.

The MSCI Pacific Index ex Japan is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The MSCI Japan Index is designed to broadly and fairly represent the full diversity of business activities in Japan.

The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue chip stocks, primarily industrials.

It is not possible to invest directly in an index.

You should consider the investment objectives, risks, charges and expenses of the Forward Funds carefully before investing. You may obtain a prospectus with this and other information about the Funds by calling (888) 312-4100 for a prospectus or by downloading one at www.forwardfunds.com. Please read the prospectus carefully before investing.

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