

Fund Commentary

Forward International Equity Fund Market Review and Global Outlook Second Quarter, 2007

Average annual returns as of 06/30/07	1YR	3YR	5YR	Since Inception (10/01/98)
Forward International Equity Fund – Investor Share Class	38.43%	26.94%	19.74%	10.33%
MSCI All Country World Index ex-USA with dividends	30.15%	25.03%	19.93%	11.76%
MSCI All Country World Index ex-USA without dividends	26.73%	21.71%	16.76%	9.21%

	Gross Expense	Net/Actual Expense
Forward International Equity Fund (Investor Share Class)	1.81%	1.24%

The performance quoted represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance 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. Performance quoted does not reflect the non-recurring redemption fee of 2% that may be charged if shares are sold or exchanged within 180 days of the purchase date. If these fees were reflected, the performance quoted would be lower. 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.

Market Review

International equity markets continued to post solid gains during Q2. After a strong start to the quarter, driven by a solid results season and continued M&A activity, the sub-prime debacle and subsequent increase in volatility caused some profit taking. However, this proved to be short lived. From a sector standpoint, energy and materials—benefiting from strong commodity prices—were the strongest performers. On the negative side, the financial sector was affected by concerns over sub-prime loan losses, and the health care sector continued to underperform following a lackluster set of results and a poor growth outlook. From a regional perspective, Asia ex-Japan was the best performer, whilst Japan trailed.

Portfolio Review

The Portfolio outperformed the MSCI All Country World Index ex-USA over the period. In Europe, performance was above the local index with stock selection the main positive contributor. In particular, Kloeckner and Danieli continued their appreciation on the back of the strength of the steel sector. Daimler continued its appreciation following the disposal of Chrysler, and our Turkish holdings (Turkcell and Aksigorta) were also important contributors to performance. In Japan, Sumco Techxiv benefited from the strong bounce in silicon wafer prices, and China-related stocks

FORWARD FUNDS

(Itochu and Sumitomo Heavy) performed well on the back of increased confidence in their growth drivers. However, Mitsubishi Estate pulled back as domestic bond yields rose, and disappointing forecasts from Sumitomo Chemical and Nippon Sheet Glass caused both stocks to fall. Asian performance was ahead of the local index. Taiwan performed well due to easing political tensions, in particular Hon Hai benefited from its association with the iPhone. Korean stocks also performed well as increased domestic retail interest helped boost the market. With an increase in equity markets and volatility, the second quarter was characterized by high portfolio activity. In particular, Allied Irish and MOL were sold after strong performance. Limited prospects for multiple expansion in Sanofi, due to generic risk and lack of pipeline, prompted us to sell our position thereby increasing our underweight in the health care sector. JGC in the industrial sector was also sold following negative earnings. New holdings were bought in Electricite de France, Bank Sarasin, Marazzi, and T&D.

Market Outlook

After a strong run, equity markets could pause for breath. Despite some possible increase in volatility in the short-term, we remain optimistic for the full year. Positive earnings growth coupled with continued multiple expansion (valuations are currently attractive) should give scope for further gains. We maintain that both Europe and Japan have significant potential for corporate restructuring and consolidation opportunities, as shown by the strong recent activity in mergers and acquisitions. We remain underweight in the sectors that are heavily reliant on the economic cycle and commodity prices to sustain their earnings growth. At the same time, we find limited investment opportunities in defensives sectors like health care and consumer staples. However, companies with a strong balance sheet and restructuring potential, as well as those exposed towards the convergence trend of Eastern Europe, feature strongly in the Portfolio.

Forward International Equity Fund—Top Ten holdings as of 06/30/07:

Top Ten Holdings	% Fund with Cash
Danieli SpA	2.63%
Banco Popolare di Verona e Novara Scrl	2.49%
Royal Dutch Shell Plc, Class A	2.33%
DaimlerChrysler AG	2.22%
Total SA	2.17%
National Bank of Greece SA	2.06%
Whitbread Plc	2.02%
Marazzi Group SpA	1.96%
Kloekner & Co. AG	1.89%
Aksigorta AS	1.85%

These holdings may not reflect the current or future positions in the portfolio. Portfolio holdings are subject to change.

The MSCI All Country World Index ex-USA is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

Investing in foreign securities will involve certain additional risks, including exchange rate fluctuation, less liquidity, greater volatility and less regulation.

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

Forward Funds are distributed by ALPS Distributors, Inc.

FWD001008 080308