

Third Quarter 2007

Forward Long/Short Credit Analysis Fund

Managed by Cedar Ridge Partners, LLC

Performance as of September 30, 2007	3Q07	YTD	Since Inception [‡]	Gross/Net [§] Expenses
Forward Long/Short Credit Analysis Fund—A (NAV)*	-10.81%	-11.70%	-11.70%	5.49%/4.51%
Forward Long/Short Credit Analysis Fund—A (MOP) [†]	-15.90%	-16.78%	-16.78%	
Lehman Brothers U.S. Municipal Index	1.82%	3.77%	3.77%	
Lehman Brothers U.S. Corporate High-Yield Index	0.33%	3.21%	3.21%	

*Excludes sales charge

[†]Reflects effects of the Fund's maximum sales charge of 5.75%[‡]10/29/06[§]The Fund's investment advisor has contractually agreed to waive a portion of its asset-based management fee until January 31, 2008, in amounts necessary to limit the Fund's operating expenses (exclusive of the performance fee, brokerage costs, interest, taxes, dividends and extraordinary expenses) for Class A shares to an annual rate (as a percentage of the Fund's average daily net assets) of 1.59%.

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. 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 the 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 current to the most recent month-end may be obtained at www.forwardfunds.com or by calling (800) 999-6809.

MARKET REVIEW

The Federal Reserve concluded in August that the market for credit tightened significantly as a result of the dramatic sell-off in the credit markets, the halt to the new issue market, and the seizing up of the short-term funding and commercial paper markets. In response, the Fed has taken a series of actions that included:

1. significant open-market operations to bolster system-wide liquidity, including, adding \$62 billion into the banking system on August 9–10, the largest amount of temporary liquidity injections since September 12, 2001.
2. a 50 basis-point cut in the discount rate on August 17, and they took the unprecedented stance of openly inviting commercial banks to use the discount window both for themselves and on behalf of clients, as well as extending repayment periods and reconfirming the types of collateral able to be pledged.
3. a 50 basis-point cut in the federal funds rate and further cut to the discount rate on September 18.

Given the sudden move to an easing cycle, and faced with the prospects of a deteriorating economic environment, most market participants expect that the Fed will likely need to cut rates further in the near future. Credit markets seem to be priced as if further eases are a virtual certainty. However, several economic data points, including jobs data, seem to pour cold water on this notion. For example, with the significant upward revisions to the past month's data, the jobs data seems to indicate that economic activity is not about to "go off the cliff" (August was revised from -4000 jobs to +89,000 jobs, and September showed +110,000 jobs created). To date, we believe the Fed's actions have been correct. However, while market participants continue to call on the Fed for further cuts in the federal funds rate, we believe caution should be utilized in effecting this action, and be properly weighed against projected underlying growth in the economy and future prospects for inflation.

Our view, as well as the emerging consensus, is for modest re-acceleration of economic growth in the fourth quarter of 2007, and that the Fed should stand firm and maintain rates at current levels until such time as the data dictates a change in course. The Fed has in fact clearly stated that it will remain open to further rate hikes if future data so warrants. A steady economy and stable policy outlook has been our view for some time. Recent economic releases validate this view. Data continues to show that the economy remains buoyant, the job market remains strong, and inflationary concerns remain in place.

We believe, ultimately, the Fed will continue to focus primarily on price stability and the value of the dollar as opposed to any target rate of economic growth. Recent Fed action has been in response to market conditions that have called on them "to become engaged." That said, whether the next move in the Fed Funds rate is up or down will be the subject of much debate, and will be determined only by the preponderance of data over the coming quarters. As the Fed ended its cycle of rate hikes last spring, we

opined "...that monetary policy and the Fed Funds rate will likely remain relatively stable for many quarters." We still hold this view, and any further modification in policy could be pushed into 2008 and beyond. We also expect longer-term rates to remain range bound, albeit at higher overall levels than in recent quarters. Given a stable Fed policy, we would not be surprised to see the yield curve revert to a flatter form. However, if the Fed aggressively eases policy, we are cautious that longer-term rates are likely to rise and the yield curve steepen further. The Fed has acknowledged that the stress in the housing sector has had, and will likely continue to have, a negative impact on domestic economic activity. Given that mortgage rates are directly impacted by the level of 10-year U.S. Treasury rates, aggressive easing by the Fed could exacerbate the stress in the housing market by causing mortgage rates to rise, inadvertently reducing the demand for mortgage loans.

Regarding credit spreads, the re-pricing of risk that has taken place in the credit markets provides opportunities to now own certain credits at markedly higher yields than even just a few months ago. While it is impossible to pick market tops and bottoms, this re-pricing significantly changes the risk/reward equation in our view. As discussed earlier, we believe the majority of the re-pricing has been caused by technical factors. The economic conditions and outlook for credits in our core investing sectors remains mostly unchanged. Municipal bond valuations remain at very attractive levels, with tobacco bonds in particular trading at very cheap levels. Valuations in autos and auto parts have appreciated following the announcement of a deal between General Motors and the UAW on a new four-year labor contract; we are expecting further positive moves as deals are completed with Chrysler and Ford. In energy and utilities, we believe the LBO/private equity party is not over, so there will continue to be winners and losers within the sector. Homebuilders have seen some recent recovery in valuations, although the operating results of the sector will likely stay challenged into 2008. Lastly, we expect that the underlying strength in the equity markets will likely be tested in the fourth quarter of 2007. In our view, too much of the year's performance is attributable to share buy-backs, currency translation and commodity prices, none of which are sustainable characteristics. It seems unsustainable to us that the bond markets are priced to a high likelihood of economic slowdown and possible recession while stock markets around the world are reaching new highs. It's doubtful that both are priced right; however, we caution that both could be priced wrong. We would not be surprised to see flows out of equities and into fixed income, which would provide an additional "bid" to credit. The credit markets will continue to face uncertainty in the near term, at least until we get through the majority of third quarter 2007 earnings reports. While the year's returns have been below our target and expectations, we remain focused on generating positive total returns on behalf of investors this year; we remain convinced that the current market provides us with ample total return opportunities.

The Fund will invest in lower-rated debt securities and may utilize derivatives for hedging purposes. The Fund's use of short selling involves additional risks and transaction costs, and creates leverage, which can increase the volatility of the Fund. The Fund may invest a larger percentage of its assets in the securities of a smaller number of issuers, since it is a "non-diversified" mutual fund.

High-yield bonds involve a greater risk of default and price volatility than U.S. Government and other high quality bonds. High-yield/high-risk bonds will experience sudden and sharp price swings, which will affect net asset value. The Fund's prospectus allows for investment in non-investment grade securities.

The Lehman Brothers U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, respectively.

The Lehman Brothers U.S. Municipal Index covers the USD-denominated long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

Please consider the investment objectives, risks, charges and expenses carefully before investing in the Fund. A prospectus with this and other information about the Fund may be obtained by calling (888) 312-4100 or by downloading one from www.forwardfunds.com. Please read it carefully before making a final investment decision.

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