

## Fund Commentary

### Forward Emerald Banking and Finance Fund Market Review and Outlook Second Quarter 2007

Average annual returns as of June 30, 2007

| Forward Emerald Banking and Finance Fund (2/18/1997) | 2q07   | 1YR    | 3YR    | 5YR    | 10YR   | Since Inception |
|--|--------|--------|--------|--------|--------|-----------------|
| Class A at NAV*                                      | -1.85% | 1.03%  | 7.76%  | 12.52% | 11.79% | 13.06%          |
| Class A at MOP**                                     | -7.49% | -4.78% | 5.65%  | 11.20% | 11.13% | 12.41%          |
| Russell 2000 Index                                   | 4.41%  | 16.43% | 13.45% | 13.88% | 9.06%  | 9.80%           |

\* Excludes sales charge.

\*\* Reflects effects of the fund's maximum sales charge of 5.75%

*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. 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](http://www.forwardfunds.com).*

The best we can say about the quarter is, “out of the frying pan and into the fire”. For more than a year, the pressure on community bank’s Net Interest Margin (NIM) was the focus of the market and Bank Fund investors. The Forward Emerald Banking and Finance Fund focused on banks that could protect their NIM, and indeed, the banks we invested in had NIM that outperformed their peers. Our performance held up well as our banks continued to grow faster than the universe in terms of loan growth and bottom line earnings. As we entered 2007 we found the bottom for NIMs in February, and we expect that our portfolio will find an expansion of NIM in the July reporting period. The reason for our optimism is the change in the yield curve from being inverted to a more normally sloped curve.

Just as the yield curve pressure was abating, the economy started to slow, for the 1Q GDP rose only 0.6%. The impact on loan growth and loan quality was now the focus of investors. Since inception, the Fund has been focused on the fastest growing banks across the nation, but this mid-cycle slowdown caused a slowdown in bank lending. In addition, residential developers hit a wall that was created by sub-prime woes even though none of our banks engage in these loans. In the second quarter, concerns over these sub-prime loans caused widespread selling of all financial institutions, whether they had exposure or not. While this is the way the market works, it is disconcerting to

fundamental stock pickers like ourselves when wholesale selling takes precedence over fundamentals.

We were fortunate to recognize this decline, and we reacted accordingly to lower our bank exposure to 53%. While this lowered our community banks exposure to the lowest level since the Fund launched in 1997, clearly the selling pressure overwhelmed even the most profitable of growth-oriented banks in our Fund. Adding to our misery in the 2<sup>nd</sup> quarter was the discovery of two frauds in what we believed were two of the better run banks in our portfolio, United Community Banks (UCBI) and Sterling Financial (SLFI). The fraud was so large at Sterling that it forced them to sell in order to meet their capital requirements. The timing was indeed unfortunate, as frauds can happen at any bank, and we believe these had nothing to do with the economic times, but of course added to our slump in the 2<sup>nd</sup> quarter. That said, our performance in the 2<sup>nd</sup> quarter was quite a bit above the smaller cap bank indices of SNL and NASDAQ. Our sales in bank assets were invested in other small cap financials during the quarter, such as insurance companies and financial service providers.

As we have seen significant withdrawals from our Fund, we note that some of our competitors have seen even greater withdrawals, and note that we have remained in front of the curve and have never been “forced” to sell into the significant weakness pressuring the more illiquid positions in our Fund. While the pressure seems unrelenting, the macro factors this fund was based on are still firmly in place:

- 1.) Community Banks are taking market share.
- 2.) Community Banks offer personalized services which can't be matched by larger institutions.
- 3.) The industry continues to consolidate and we should be a beneficiary of this trend.

Our focus remains on the fastest growing loan originators and EPS generators. Texas, Virginia, Chicago and ethnic communities represent some of the best markets in the US, and our concentration in these markets will bode well when the pressure abates and growth again yields appreciation in this sector. As prices have declined, Price/Earnings ratios have become extremely attractive, selling at value not seen in more than 4 or 5 years. We don't know where traditional value investors will say enough is enough, but we are encouraged that we hold attractive growth financials at discounted values.

*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](http://www.forwardfunds.com). It should be read carefully before investing.*

**Funds that concentrate in a particular industry will involve a greater degree of risk than a fund with a more diversified portfolio.**

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

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.

As of December 31, 2006, the Fund held the following positions in the portfolio:

Texas United Bancshares, Inc. - 3.68%; Preferred Bank - 2.42%; Wilshire Bancorp, Inc. - 2.22%; Prosperity Bancshares, Inc. - 1.88%; East West Bancorp, Inc. - 1.53%; MetroCorp Bancshares, Inc. - 0.20%.

These allocations may not reflect the current or future positions in the portfolio.

Forward Funds are distributed by ALPS Distributors, Inc.

FWD001003 072708

As of June 30, 2007, the Fund held the following positions in the portfolio (These holdings may not reflect the current or future positions in the portfolio.):

Forward Emerald Banking and Finance Fund

As of 06/30/2007

| Security ID | Ticker | Security Name                           | # of Shares | Market Price | Market Value  | % of Total Net Assets | Currency Code |
|-------------|--------|---|-------------|--------------|---------------|-----------------------|---------------|
| 743606105   | PRSP   | Prosperity Bancshares, Inc.             | 307,732     | \$ 32.76     | \$ 10,081,300 | 4.65%                 | USD           |
| 008252108   | AMG    | Affiliated Managers Group, Inc.         | 61,300      | 128.76       | 7,892,988     | 3.64%                 | USD           |
| 007942204   | ADVNB  | Advanta Corp., Class B                  | 218,850     | 31.14        | 6,814,989     | 3.15%                 | USD           |
| 740367107   | PFBC   | Preferred Bank                          | 166,131     | 40.00        | 6,645,240     | 3.07%                 | USD           |
| 88224Q107   | TCBI   | Texas Capital Bancshares, Inc.          | 276,380     | 22.35        | 6,177,093     | 2.85%                 | USD           |
| 90933T109   | INDM   | United America Indemnity, Ltd., Class A | 236,154     | 24.87        | 5,873,150     | 2.71%                 | USD           |
| 717528103   | PHLY   | Philadelphia Consolidated Holding Corp. | 135,081     | 41.80        | 5,646,386     | 2.61%                 | USD           |
| 27579R104   | EWBC   | East West Bancorp, Inc.                 | 129,073     | 38.88        | 5,018,358     | 2.32%                 | USD           |
| 92778Q109   | VCBI   | Virginia Commerce Bancorp, Inc.         | 282,629     | 16.91        | 4,779,256     | 2.21%                 | USD           |
| 78486Q101   | SIVB   | SVB Financial Group                     | 89,480      | 53.11        | 4,752,283     | 2.19%                 | USD           |
| 860630102   | SF     | Stifel Financial Corp.                  | 77,233      | 58.89        | 4,548,251     | 2.10%                 | USD           |
| 832449102   | SMTB   | Smithtown Bancorp, Inc.                 | 165,086     | 25.37        | 4,188,232     | 1.93%                 | USD           |
| 638904102   | NAVG   | Navigators Group, Inc.                  | 74,700      | 53.90        | 4,026,330     | 1.86%                 | USD           |
| 269246104   | ETFC   | E*Trade Financial Corp.                 | 180,200     | 22.09        | 3,980,618     | 1.84%                 | USD           |
| 320841109   | FMR    | First Mercury Financial Corp.           | 185,500     | 20.97        | 3,889,935     | 1.80%                 | USD           |
| 33615C101   | FRGB   | First Regional Bancorp                  | 151,581     | 25.44        | 3,856,221     | 1.78%                 | USD           |
| 195493309   | CNB    | Colonial Bancgroup, Inc.                | 146,700     | 24.97        | 3,663,099     | 1.69%                 | USD           |
| 154760102   | CPF    | Central Pacific Financial Corp.         | 101,847     | 33.01        | 3,361,969     | 1.55%                 | USD           |
| 90984P105   | UCBI   | United Community Banks, Inc.            | 123,652     | 25.89        | 3,201,350     | 1.48%                 | USD           |
| 97186T108   | WIBC   | Wilshire Bancorp, Inc.                  | 251,394     | 12.18        | 3,061,979     | 1.41%                 | USD           |
| 844767103   | OKSB   | Southwest Bancorp, Inc.                 | 122,438     | 24.04        | 2,943,410     | 1.36%                 | USD           |
| 957638109   | WAL    | Western Alliance Bancorp                | 89,600      | 29.85        | 2,674,560     | 1.23%                 | USD           |
| 032359309   | AFSI   | Amtrust Financial Services, Inc.        | 139,700     | 18.79        | 2,624,963     | 1.21%                 | USD           |
| 336312103   | FSGI   | First Security Group, Inc.              | 242,638     | 10.80        | 2,620,490     | 1.21%                 | USD           |
| 511656100   | LKFN   | Lakeland Financial Corp.                | 122,461     | 21.27        | 2,604,745     | 1.20%                 | USD           |
| 010317105   | ALAB   | Alabama National BanCorp                | 40,005      | 61.84        | 2,473,909     | 1.14%                 | USD           |
| 147272108   | CASB   | Cascade Financial Corp.                 | 146,927     | 15.83        | 2,325,854     | 1.07%                 | USD           |
| 133034108   | CAC    | Camden National Corp.                   | 59,300      | 39.14        | 2,321,002     | 1.07%                 | USD           |
| 88368Q103   | TSCM   | TheStreet.com, Inc.                     | 211,800     | 10.88        | 2,304,384     | 1.06%                 | USD           |
| 190897108   | COBZ   | CoBiz, Inc.                             | 127,104     | 18.12        | 2,303,124     | 1.06%                 | USD           |
| 02363X104   | APRO   | America First Apartment Investors, Inc. | 89,438      | 24.75        | 2,213,591     | 1.02%                 | USD           |
| 06646V108   | RATE   | Bankrate, Inc.                          | 45,947      | 47.92        | 2,201,780     | 1.02%                 | USD           |
| 46145F105   | ITG    | Investment Technology Group, Inc.       | 50,000      | 43.33        | 2,166,500     | 1.00%                 | USD           |
| 31430F101   | FCH    | FelCor Lodging Trust, Inc.              | 81,800      | 26.03        | 2,129,254     | 0.98%                 | USD           |
| 34958B106   | FIG    | Fortress Investment Group Llc, Class A  | 89,300      | 23.82        | 2,127,126     | 0.98%                 | USD           |
| 427825104   | HT     | Hersha Hospitality Trust, Class A       | 178,400     | 11.82        | 2,108,688     | 0.97%                 | USD           |
| 29530P102   | ERIE   | Erie Indemnity Co., Class A             | 38,900      | 54.04        | 2,102,156     | 0.97%                 | USD           |
| 952145100   | WCBO   | West Coast Bancorp                      | 66,300      | 30.39        | 2,014,857     | 0.93%                 | USD           |
| 112502109   | BXXX   | Brooke Corp.                            | 135,022     | 14.79        | 1,996,975     | 0.92%                 | USD           |
| 25037Y109   | DCBK   | Desert Community Bank                   | 82,280      | 22.95        | 1,888,326     | 0.87%                 | USD           |
| 86806M106   | SUPR   | Superior Bancorp                        | 183,674     | 10.23        | 1,878,985     | 0.87%                 | USD           |
| 82669G104   | SBNY   | Signature Bank                          | 55,100      | 34.10        | 1,878,910     | 0.87%                 | USD           |

**Forward Emerald Banking and Finance Fund**  
**As of 06/30/2007**

| <b>Security ID</b> | <b>Ticker</b> | <b>Security Name</b>                     | <b># of Shares</b> | <b>Market Price</b> | <b>Market Value</b> | <b>% of Total Net Assets</b> | <b>Currency Code</b> |
|--------------------|---------------|--|--------------------|---------------------|---------------------|------------------------------|----------------------|
| 985021104          | YANB          | Yardville National Bancorp               | 54,945             | 34.15               | 1,876,372           | 0.87%                        | USD                  |
| 811656107          | SEAB          | SeaBright Insurance Holdings, Inc.       | 106,200            | 17.48               | 1,856,376           | 0.86%                        | USD                  |
| 063904106          | OZRK          | Bank of The Ozarks, Inc.                 | 66,319             | 27.87               | 1,848,311           | 0.85%                        | USD                  |
| 459044103          | IBOC          | International Bancshares Corp.           | 71,802             | 25.62               | 1,839,567           | 0.85%                        | USD                  |
| 591650106          | MCBI          | MetroCorp Bancshares, Inc.               | 80,600             | 21.42               | 1,726,452           | 0.80%                        | USD                  |
| 302930102          | FBNP          | FNB Corp.                                | 47,700             | 35.90               | 1,712,430           | 0.79%                        | USD                  |
| 884481102          | TWPG          | Thomas Weisel Partners Group, Inc.       | 102,173            | 16.65               | 1,701,180           | 0.79%                        | USD                  |
| 018581108          | ADS           | Alliance Data Systems Corp.              | 21,881             | 77.28               | 1,690,964           | 0.78%                        | USD                  |
| 192025104          | CVLY          | Codorus Valley Bancorp, Inc.             | 88,632             | 18.82               | 1,668,054           | 0.77%                        | USD                  |
| 637417106          | NNN           | National Retail Properties, Inc.         | 75,800             | 21.86               | 1,656,988           | 0.76%                        | USD                  |
| 42234Q102          | HTLF          | Heartland Financial USA, Inc.            | 66,700             | 24.30               | 1,620,810           | 0.75%                        | USD                  |
| 368140109          | GBTS          | Gateway Financial Holdings, Inc.         | 108,024            | 14.61               | 1,578,231           | 0.73%                        | USD                  |
| 709600100          | PNSN          | Penson Worldwide, Inc.                   | 63,100             | 24.53               | 1,547,843           | 0.71%                        | USD                  |
| 024835100          | ACC           | American Campus Communities, Inc.        | 52,300             | 28.29               | 1,479,567           | 0.68%                        | USD                  |
| 905399101          | UBSH          | Union Bankshares Corp.                   | 62,739             | 23.20               | 1,455,545           | 0.67%                        | USD                  |
| 742282106          | PNBC          | Princeton National Bancorp, Inc.         | 52,500             | 27.60               | 1,449,000           | 0.67%                        | USD                  |
| 800363103          | SASR          | Sandy Springs Bancorp, Inc.              | 45,700             | 31.44               | 1,436,808           | 0.66%                        | USD                  |
| 917286205          | UBA           | Urstadt Biddle Properties, Inc., Class A | 82,000             | 17.01               | 1,394,820           | 0.65%                        | USD                  |
| 97717P104          | WSDT          | WisdomTree Investments, Inc.             | 277,161            | 5.01                | 1,388,577           | 0.64%                        | USD                  |
| 816300107          | SIGI          | Selective Insurance Group, Inc.          | 51,238             | 26.88               | 1,377,277           | 0.64%                        | USD                  |
| 004337101          | ANCX          | Access National Corp.                    | 153,308            | 8.85                | 1,356,776           | 0.63%                        | USD                  |
| 390905107          | GSBC          | Great Southern Bancorp, Inc.             | 50,000             | 27.05               | 1,352,500           | 0.62%                        | USD                  |
| 587902107          | MIGP          | Mercer Insurance Group, Inc.             | 66,230             | 19.90               | 1,317,977           | 0.61%                        | USD                  |
| 742962103          | PVTB          | Private Bancorp, Inc.                    | 45,700             | 28.80               | 1,316,160           | 0.61%                        | USD                  |
| 80000Q104          | SMHG          | Sanders Morris Harris Group, Inc.        | 108,190            | 11.64               | 1,259,332           | 0.58%                        | USD                  |
| 89267P105          | TRAD          | TradeStation Group, Inc.                 | 106,300            | 11.65               | 1,238,395           | 0.57%                        | USD                  |
| 754730109          | RJF           | Raymond James Financial, Inc.            | 38,700             | 30.90               | 1,195,830           | 0.55%                        | USD                  |
| 930059100          | WDR           | Waddell & Reed Financial, Inc., Class A  | 44,300             | 26.01               | 1,152,243           | 0.53%                        | USD                  |
| 72346Q104          | PNFP          | Pinnacle Financial Partners, Inc.        | 35,400             | 29.36               | 1,039,344           | 0.49%                        | USD                  |
| 65333R200          | NXTY          | Nexity Financial Corp.                   | 96,925             | 10.28               | 996,389             | 0.46%                        | USD                  |
| 629491101          | NYX           | NYSE Group, Inc.                         | 11,800             | 73.62               | 868,716             | 0.40%                        | USD                  |
| 293712105          | EFSC          | Enterprise Financial Services Corp.      | 32,500             | 24.86               | 807,950             | 0.37%                        | USD                  |
| 426927109          | HTBK          | Heritage Commerce Corp.                  | 30,300             | 23.68               | 717,504             | 0.33%                        | USD                  |
| 482423100          | KBW           | KBW, Inc.                                | 22,900             | 29.38               | 672,802             | 0.31%                        | USD                  |
| 59522J103          | MAA           | Mid-America Apartment Communities, Inc.  | 12,800             | 52.48               | 671,744             | 0.31%                        | USD                  |
| 67090F106          | JNC           | Nuveen Investments, Inc., Class A        | 10,800             | 62.15               | 671,220             | 0.31%                        | USD                  |
| 274287101          | EPEN          | East Penn Financial Corp.                | 44,855             | 14.32               | 642,324             | 0.30%                        | USD                  |
| 17462Q107          | CZFC          | Citizens First Corp.                     | 47,414             | 13.24               | 627,524             | 0.29%                        | USD                  |
| 40108P101          | GFED          | Guaranty Federal Bancshares, Inc.        | 20,200             | 30.10               | 608,020             | 0.29%                        | USD                  |
| 859317109          | SLFI          | Sterling Financial Corp.                 | 57,338             | 10.52               | 603,196             | 0.28%                        | USD                  |
| 46629U107          | JMP           | JMP Group, Inc.                          | 51,800             | 10.45               | 541,310             | 0.25%                        | USD                  |
| 927810101          | VFGI          | Virginia Financial Group, Inc.           | 23,153             | 22.20               | 513,997             | 0.24%                        | USD                  |
| 64353M100          | NCBC          | New Century Bancorp, Inc.                | 34,576             | 12.65               | 437,214             | 0.20%                        | USD                  |

**Forward Emerald Banking and Finance Fund**

As of 06/30/2007

| <b>Security ID</b> | <b>Ticker</b> | <b>Security Name</b>       | <b># of<br/>Shares</b> | <b>Market Price</b> | <b>Market Value</b> | <b>% of Total<br/>Net Assets</b> | <b>Currency<br/>Code</b> |
|--------------------|---------------|----------------------------|------------------------|---------------------|---------------------|----------------------------------|--------------------------|
| 96008P104          | WFD           | Westfield Financial, Inc.  | 37,100                 | 9.97                | 369,887             | 0.17%                            | USD                      |
| 302520101          | FNB           | F.N.B. Corp.               | 21,700                 | 16.74               | 363,258             | 0.17%                            | USD                      |
|                    |               | Net Cash & Cash Equivalent |                        |                     | 11,615,200          | 5.36%                            |                          |