

December 2007

Forward Progressive Real Estate Fund*Sub-Advised by Forward Uniplan Advisors, Inc.*

Performance as of December 31, 2007	4Q07	YTD	1 Year	3 Year	5 Year	Since Inception*	Gross/Net Expenses
Forward Progressive Real Estate Fund—Investor	-13.86%	-15.30%	-15.30%	7.26%	15.35%	12.49%	1.35%/1.35%
FTSE NAREIT Equity REIT Index	-12.67%	-15.69%	-15.69%	8.50%	18.17%	14.18%	

Returns for periods greater than one year are annualized.

*05/10/99

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. The returns assume reinvestment of dividends and distributions, if any. 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.

And So It Ends

During 2007, REITs posted their worst one-year performance since 1998. This breaks a long winning, seven-year run of outperforming the S&P 500 (2000-2006), but the streak ended in 2007 as the REIT sector, as measured by the FTSE NAREIT Equity REITs Index, declined -15.69% while the S&P 500 rose 5.5%. Last year's distressing performance for REITs was the sector's worst one-year performance since 1998, when the group posted a return of -17.5%. The final quarter of 2007 was punctuated with an early rally followed by a steady decline into the year-end that was accelerated during December due to tax selling across a wide range of accounts. And so it ends.

Valuation and Outlook

While the economy is posted to slow, and as a result, real estate fundamentals are decelerating, REITs are more attractively priced today than at the start of 2007. The statistics are as follows:

Indicator	10-Year Low	10-Year Average	10-Year High	Current (12/31/2007)
Market Value to NAV Ratio	76%	103%	134%	81%
FTSE NAREIT Equity REIT Index Yield vs. 10-Year Treasury Bond Yield	-136 bps	98 bps	325 bps	74 bps
FTSE NAREIT Equity REIT Index Yield vs. S&P Utility Yield	30 bps	214 bps	465 bps	211 bps

Source: Forward Uniplan Advisors, Inc., Baseline Inc., Merrill Lynch & Co., Inc.

This chart is for illustrative purposes only and not indicative of any investment. It is not possible to invest directly in an unmanaged index. Past performance does not guarantee future results

It would not be unreasonable to expect the group to rebound this year based solely on current valuation. With a dividend yield of 4.77%, the yield spread valuation of REITs has moved squarely back into average territory. With a 19% discount to NAV, the group is within 5% of its all time low, based on underlying property valuations. The anxiety in the REIT sector is reflected in the current valuations and has been reinforced by a long list of factors, including worries about subprime debt and its impact on the cost of capital, concern over real estate values and the state of the economy. In addition, there continued to be modest capital outflows from dedicated REIT funds in an environment where buyers were hard to be found.

The Winners and the Losers

Sub-sector performance was telling, as the leaders and laggards reflected the general psychology of the broader market. While M&A activity dominated 2005, 2006 and the early part of 2007, investors became more defensive throughout the year. This resulted in healthcare being the top performing sector, with a total return of +3%. Apartments were the worst-performing group, reflecting the general anxiety surrounding the single-family residential home market, declining more than 26%. The downturn in single-family home prices is expected to pressure rental growth for multi-family landlords, as vacant homes land in the rental market creating competition for apartment owners. Industrial REITs were the second-best performing sub-sector with a gain of 1.5%, as the large cap global players showed continued improvements in performance as companies re-engineered their global supply chains due to higher energy costs.

Outlook

The correction in REITs appears to be reflecting all the bad news inherent in the broader market; however, the fundamental operating environment for most REITs continues to remain stable or improve. The key drivers of real estate demand—nominal GDP growth, job growth and household formation—all remain in a positive trend since bottoming in early 2002, and these indicators continued to advance during the third quarter of 2007, although at a slightly slower rate than earlier in the prior quarter, so economic fundamentals appear to be slowing.

That being said, REIT earnings' results have been uniformly ahead of forecasts with few exceptions. Operators continue to see strength in demand within urban office markets, such as NYC, and continued stable demand for high-quality retail space, although retail operators have been vocal about the possibility of scaling back expansion plans for 2008–2009. For Q3 2007 earnings, of the 34 companies in our portfolio, 30 met or exceeded our forecasts and those of analysts, while four fell short of these expectations. This is a slightly worse earnings performance compared to the ratio of 32 meets and exceeds and 2 misses experienced by the portfolio during Q2, but still a solid showing in our opinion. From an earnings revisions standpoint, sell-side analysts have increased their aggregate 2007 and 2008 estimates by nearly 2% on average.

Most local real estate markets are showing stable-to-increased demand across all commercial property sectors and supply has remained relatively constrained in the face of high construction costs. This all points to a continued positive environment in real estate operating fundamentals and that should ultimately translate into better market performance in general for REITs.

Conclusion

We have seen REIT valuations cheapen dramatically, bringing the asset class back into reasonable-to-cheap valuation ranges. Current valuations, coupled with a continued positive environment in real estate operating fundamentals, should translate into better market performance in general for REITs. However, we are now faced with the possibility of another re-test of the August lows, which could happen under the continued selling pressure as fear over global economic growth continue to grow. This leads us to believe that investors who have been under-allocated to REITs should use this possible seasonal period of weakness as an opportunity to increase their REIT allocations. As for our existing portfolios, we will continue playing defense until we are past this seasonal period and observe a clear trend in operating earnings at the company level while looking for data relating to 2008 financial performance of REITs.

—Richard Imperiale, Portfolio Manager

Forward Progressive Real Estate Fund—Top Ten holdings as of 12/31/07:

Top Ten Holdings	% Fund with Cash
Simon Property Group, Inc.	7.25%
ProLogis	6.51%
AMB Property Corp.	5.91%
Alexandria Real Estate Equities, Inc.	5.51%
SL Green Realty Corp.	5.10%
Vornado Realty Trust	4.29%
Hospitality Properties Trust	4.14%
Boston Properties	3.89%
Kimco Realty Corp.	3.74%
Regency Centers Corp.	3.52%

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

The FTSE NAREIT Equity REIT Index is representative of the tax-qualified REITs listed on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ National Market System. The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

REIT funds will be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographic sector. Risks also include declines in the value of real estate, general and economic conditions.

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.

FWD001288 033109