

Third Quarter 2007

**Forward Large Cap Equity Fund***Sub-Advised by Piedmont Investment Advisors, LLC*

Performance as of September 30, 2007	3Q07	YTD	Since Inception <sup>‡</sup>	Gross/Net <sup>§</sup> Expenses
Forward Large Cap Equity Fund—A (NAV)*	3.27%	12.40%	17.17%	1.64%/1.34%
Forward Large Cap Equity Fund—A (MOP) <sup>†</sup>	-2.66%	5.98%	10.43%	
S&P 500 Index	2.03%	9.13%	12.76%	

\*Excludes sales charge

<sup>†</sup>Reflects effects of the Fund's maximum sales charge of 5.75%<sup>‡</sup>10/31/06<sup>§</sup>The Fund's investment advisor has contractually agreed to waive a portion of its fees until January 31, 2008, in amounts necessary to limit the Fund's operating expenses (exclusive of 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 1.34%.

Performance figures shown for periods prior to July 11, 2007, do not reflect Piedmont Investment Advisors' performance or current strategy.

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

**MARKET REVIEW**

The third quarter of 2007 was a tumultuous time for the markets as volatility soared and investors felt like they were on a roller-coaster ride. The quarter began with losses across all indexes in July and signs of a looming crisis in the subprime mortgage market. This was followed by a steep increase in volatility in August that was fueled by the de-leveraging activities of some large quantitative hedge funds. This volatility tempered down in September and the Fed stepped in to help with a 50 basis point cut in the Federal Funds rate. At the end of the day when the quarter ended, the S&P 500 Index and other large cap indexes had posted gains for the quarter, while most mid cap and small cap indexes had posted losses for the same period. Also, for every month in the third quarter, growth indexes outperformed their value counterparts across all capitalizations. Earnings momentum and growth factors dominated while value factors underperformed.

Other trends that characterized the third quarter included a surge in commodity prices, a substantial weakening of the dollar, and a complete fall off in the deals market as credit dried up in response to a broad re-pricing of risk by credit investors. Commodity prices surged as oil shot up to nearly \$84 a barrel before a modest retreat, gold soared above \$700 an ounce amid fears of a U.S. recession, and one of the most ubiquitous agricultural commodities, wheat, hit an all-time high. Traditionally negatively correlated with gold, the dollar substantially weakened during the quarter, hitting a record low against the euro and dropping to parity with the Canadian dollar for the first time in 31 years. This quarter also signaled a pause in the six straight year run of the growing mergers and acquisitions market. Even including the steep drop-off in deal making in August and September, the year's first nine months have made 2007 the busiest year ever for mergers and acquisitions.

Commodity sectors (energy and materials) and capital expenditure sectors (information technology and industrials) dominated performance in the third quarter. In the consumer sector, consumer staples stocks put in a strong performance while consumer discretionary lagged the market. Rate-sensitive sectors like financials and utilities faced headwinds and posted losses for the quarter.

**MARKET OUTLOOK**

As we move into the last quarter of the year, the equity market appears poised between the likelihood of another strong run in the next few quarters and fears of a recession. The Fed rate cut in September and the expectation for more to follow combined with a lull in the credit crisis have soothed investor concerns for now. However, uncertainty remains about the impact of credit markets on earnings and many investors believe that the turmoil in the banking system is far from over. There still does not appear to be a bottom in sight for housing, and employment is weakening. Threats to consumer spending put the economy at risk and while emerging markets are doing well, cracks in the global foundation are starting to appear.

The easing of interest rates on September 18, 2007, marked the end of the Fed's tightening cycle that began in June 2004. This also ushered in the transition from a correction phase to the late expansion phase of the business cycle. As this change happens, we anticipate a slowing GDP, an initial steepening of the yield curve while the Fed eases, and an economy fueled by capital expenditures. The distressed status of the consumer's balance sheet resulting from the housing sector crisis, tightening credit standards and high levels of consumer debt is expected to continue for the next few quarters. The probability of a recession remains low as larger companies with increasing global exposure benefit from growth in markets outside the United States—a growth that is further fueled by the weakness in the dollar. At the same time, we expect inflation to remain in check.

As we enter the late expansion phase, we expect companies with stable, non-cyclical earnings growth to outperform. With the Fed easing, the price of risk falls and longer duration stocks perform well. Investors are willing to pay a premium for long-duration cyclical information technology and industrials and long-duration defensives like consumer staples and health care. Sectors that are leveraged to consumer spending like consumer discretionary do not appear favorable in the current environment. Additionally, this sector is negatively impacted by the unrelenting rise in energy prices. Short-duration commodities like energy and materials that have some leverage to the global economy may have another strong but short run in the fourth quarter. As the economy moves further into the late expansion phase, these sectors may be done with their run by the middle of next year. Rate-sensitive sectors like utilities and financials may also face some headwinds as long rates rise and the yield curve steepens. Stocks with credit or underwriting exposure are more vulnerable in this environment compared to banks and insurance companies that benefit from a steepening yield curve and interest rate spreads.

#### QUANTITATIVE UPDATE

The portfolio was successful in keeping ahead of its benchmark, the S&P 500, for the turbulent third quarter of 2007. The portfolio strategy for the quarter was to move from smaller capitalization names oriented to the domestic economy and the U.S. consumer to non-cyclical large cap names leveraged to the global economy. This strategy helped to protect downside risk and increase the upside potential.

The consumer macro sector contributed to the portfolio's performance in the third quarter driven primarily by good stock selection in the consumer discretionary and consumer staples groups. The focus on large cap companies with international revenue exposure and underweight of U.S.-centric groups such as retail drove the outperformance of these sectors. Strong performers included McDonalds, Nike, PepsiCo, and Procter & Gamble. The third sector in this group, namely health care, detracted from the performance of the portfolio. Shares of Wyeth were particularly instrumental in this underperformance. In the rate sensitive macro sector, both financials and utilities were underperformers for the quarter. Financials lagged the market despite rate cuts in September, and the sector was a drag on total portfolio performance. Selection within the group was essentially neutral as the positive contribution from an overweight in insurance and underweight in banks was offset by an underweight in capital markets firms that rebounded strongly in the second half of the month. The top performers in the group were insurance names ACE and MetLife.

In the commodities macro sector, materials had a strong showing due to robust performances from Agrium and Freeport-McMoran. Demand for agricultural crops as reflected by the dwindling grain inventory levels and continuing global economic growth drove the appetite for commodity fertilizers and basic materials. On the other hand, the energy sector had a lackluster performance due to negative contributions by refiner Tesoro Corp and contract driller Noble Corp. Refining margins had contracted significantly from the 2Q07 highs due to shrinking crack spreads as crude oil prices surged over \$80 per barrel. Crude prices are supported at relatively high levels due to its supply/demand dynamics as it gets apparent that new production is not sufficient to offset demand and global depletion. This bodes well for energy equipment and service companies like National Oilwell Varco which performed admirably with a total return of 23.7% for the quarter.

The capital expenditure macro sector (industrials and information technology) put in a modest performance for the quarter. Stock selection in the industrials sector benefited from secular growth in the agricultural equipment and aerospace industries. International expansion, increasing focus on renewable energy sources (bio-fuels) and currency tailwinds due to the weak dollar helped out-performance by Deere (+19.5%), Parker Hannifin (+7%) and Honeywell (+6.2%). Both Terex Corp and Trinity Industries were down 11% for the quarter due to concerns about sustainability of their earnings momentum in the face of a difficult domestic economy buffeted by concerns of credit risk and housing woes. Performance in the technology sector was aided by timely stock selection in the computers and semiconductor industries. Apple (+25.8%), Hewlett Packard (+11.8%) and NVIDIA (+31.6%) highlighted the robust growth in the global PC industry along with the ongoing product cycle strength in the consumer electronics space. On the flip side, concerns related to over-supply in poly-silicon (the core building block for solar and semi-conductor wafers) and potential pricing pressures in the high definition digital TV supply chain, resulted in relative underperformance in MEMC Electronics and Corning Inc.

Forward Large Cap Equity Fund—Top Ten holdings as of 09/30/07:

Top Ten Holdings	% Fund with Cash
PepsiCo, Inc.	3.22%
AT&T, Inc.	3.21%
Nike, Inc., Class B	2.91%
Ace, Ltd.	2.88%
Citigroup, Inc.	2.70%
MetLife, Inc.	2.68%
Microsoft Corp.	2.65%
Schlumberger, Ltd.	2.56%
ConocoPhillips Corp.	2.53%
The Walt Disney Co.	2.45%

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

The S&P 500 Index is a capitalization-weighted index of 500 stocks traded on the NYSE, AMEX and OTC exchanges and is comprised of industrial, financial, transportation and utility companies. The index figures do not reflect any deductions for fees, expenses or taxes. It is not possible to invest directly in an index.

*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.*

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