

Third Quarter 2007

Forward International Small Companies Fund*Sub-Advised by Pictet Asset Management*

Performance as of September 30, 2007	3Q07	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross/Net† Expenses
Forward International Small Companies Fund—Institutional	-1.57%	8.78%	24.10%	27.99%	30.20%	15.54%	14.03%	1.28%/1.25%
MSCI EAFE Small Cap Index	-4.43%	6.92%	19.48%	23.99%	28.03%	10.56%	7.84%	
HSBC World ex-U.S. Smaller Companies Index	-2.31%	8.65%	24.28%	27.17%	32.67%	11.71%	10.51%	

Returns for periods greater than one year are annualized.

*02/07/96

†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 the Institutional Class shares to an annual rate (as a percentage of the Fund's average daily net assets) of 1.25%.

The Institutional Class of the Pictet International Small Companies Fund was reorganized into the Institutional Class of the Forward International Small Companies Fund on December 23, 2003. Performance figures shown for periods prior to December 23, 2003, represent performance of the Institutional Class of Pictet International Small Companies Fund.

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 or by calling (800) 999-6809.

MARKET REVIEW

The main preoccupation for markets over the quarter was the impact of the subprime crisis, which first reared its head in June as rising interest rates and a growing number of defaults among high-risk subprime borrowers put further pressure on house prices. Lennar, the largest house builder in the U.S., reported a surprise second-quarter loss and noted that its average selling price had fallen 7.5% during the period. The Commerce Department reported a 1.6% drop in sales of few homes in May, while the sales of pre-owned houses have fallen to their lowest level in four years. Over the period, subprime mortgage fears spread into the wider credit markets and the growing crisis of confidence sent investors running for cover into Government securities. Mid-August saw near-panic conditions as the largest U.S. mortgage lender, Countrywide Financial, had to call on an emergency credit line of \$11.5 billion USD in order to fund operations. Markets on both sides of the Atlantic went into freefall with U.S. equity indexes falling by nearly 2%, Europe by over 3% and in the U.K. the FTSE Index declined by over 4%. The following trading session in Asia saw South Korea fall by nearly 7% and the Philippines and Indonesia by 6% as investors dumped stocks in markets where buyers were virtually absent. The final days of the month saw a degree of stability re-established, with equity prices rallying in anticipation that central banks would cut interest rates in order to maintain economic growth and secure financial stability. Thus, by month end, the MSCI World Index had recovered virtually all of the decline to register a flat return over the period. In September, the U.S. Federal Reserve opted for the most aggressive approach, slashing the Fed funds rate by half a point to 4.75% and lowering the discount rate yet again, from 5.75% to 5.25%. Despite a rally after this, most major equity markets fell over the quarter in local currency terms, with the MSCI World ex-U.S. Index down by just over 2.6%. Unsurprisingly, small caps had a torrid time as investors scrambled to reduce exposure to perceived risky assets, and, over the period, the same small cap index fell by 9% when expressed in local currency. In USD terms, returns were much better, with the benchmark index falling by "just" 4.5%. The Fund did rather better, falling by just 1.4% over the period. On an annualized basis, the Fund shows a return of 25%, comfortably ahead of the benchmark's rise of 19.2%.

Forward International Small Companies Fund—Top Ten holdings as of 09/30/07:

Top Ten Holdings	% Fund with Cash
Hexagon AB, Class B	1.37%
Teleperformance	1.28%
Babcock & Brown Power	1.25%
Pacific Basin Shipping, Ltd.	1.25%
Sechillienne-Sidec	1.20%
Charter Plc	1.19%
Nabtesco Corp.	1.15%
Noble Group, Ltd.	1.11%
Oriflame Cosmetics SA	1.09%
ASKUL Corp.	1.07%

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

The MSCI EAFE Small Cap Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada. The HSBC World ex-U.S. Smaller Companies Index is a market capitalization weighted index designed to represent performance of smaller companies available in developed stock markets outside the United States and Canada. Effective May 1, 2007, the Fund's benchmark is the MSCI EAFE Small Cap Index. Before May 1, 2007, the Fund's benchmark was the HSBC World ex-U.S. Smaller Companies Index. The index figures do not reflect any deduction for fees, expenses, or taxes. It is not possible to invest directly in an index.

The MSCI World Index is a free float-adjusted market capitalization index designed to measure global developed market equity performance.

Investing in foreign securities will involve certain additional risks, including exchange rate fluctuation, less liquidity, greater volatility, and less regulation. Small company stocks are generally riskier than large company stocks due to greater volatility and less liquidity.

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.

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