

Fourth Quarter 2007

**Forward Hoover Small Cap Equity Fund**

Sub-Advised by Hoover Investment Management

Performance as of December 31, 2007	4Q07	YTD	1 Year	3 Year	5 Year	Since Inception*	Gross/Net <sup>†</sup> Expenses
Forward Hoover Small Cap Equity Fund—Investor	-1.27%	7.36%	7.36%	8.77%	16.61%	11.05%	1.71%/1.71%
Russell 2000 Index	-4.58%	-1.57%	-1.57%	6.80%	16.25%	9.75%	

Returns for periods greater than one year are annualized.

\*10/01/98

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. 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.

**FOURTH QUARTER REVIEW**

Since the market volatility began in August of 2007, small cap stocks have declined more than large caps. Capital preservation is always our first goal and becomes extremely important in a down market because of reverse math. For instance, a stock down 50% must recover 100% to break even (down 25% = up 33%, down 20% = up 25%). Once the decline is over, we anticipate the small caps will rebound more rapidly as has been the case in more recent down drafts of 2003, 2000, 1998, as well as 1974. Therefore, now would seem to be the time to consider adding to small or mid-cap portfolios. Our reasons are many: growth is faster (the law of small numbers creates a greater impact from innovation and growth), there are more stocks from which to select, and in recovering from a stock market bottom, higher volatility brings better returns.

For the year, the Fund's Investor Class returned 7.36% and its benchmark, the Russell 2000 Index, returned -1.57%.

During the third and fourth quarters, we repositioned the portfolio to less cyclical exposure. In what was, and continues to be, an uncertain U.S. economic environment we lightened our cyclical exposure in favor of companies where growth can persist in either a strong or weak economy. We continued to lower our Consumer and Financial weightings while adding to Health Care, Consumer Staples, Utilities, and Energy. We are seeking growth companies, not "defensive" names in these less cyclical industries and sectors, as well as special situations. Successful themes for the full year of 2007 have included domestic security, aerospace and defense suppliers, energy, health care cost containment, energy infrastructure, suppliers to the telecom industry, and consumer turnaround companies. We are focused on company-specific stocks with accelerating growth catalysts, strong management teams, improving margins, and companies whose dividends increase in line with earnings.

**PORTFOLIO REVIEW**

We maintained our weighting in the Autos and Transportation sector. New purchase, *Alaska Air Group*, although slightly down since initial purchase, appears well positioned to benefit from increased traffic growth on its north/south routes and should be able to build market share on its newer east/west routes. We anticipate that this stock will rebound in the first quarter. Although down for the quarter, we have had double-digit returns since our purchase in *Gentex*, a supplier to the auto industry.

Our Consumer Discretionary sector outperformed the Index for the quarter. We reduced our weighting from 21% to 16%, due to weakness of the U.S. consumer. However, stocks in the portfolio that had strong performance and advanced double digits during the quarter included *DeVry*, an education company; *United Natural Foods*, an organic food distributor; and *Corrections Corporation of America*, which operates and manages prisons and correctional facilities. We took profits in *Vail Resorts* and *Zumiez*. New purchases *Brink's Company* and *Brightpoint* have not yet added to performance. In the Consumer Staples sector, we increased our weighting for the quarter from 3.9% to 5.8%. We added to three special situations including *Flowers Foods*, which produces and markets bakery products in the U.S. We also added to our positions in *Fresh Del Monte*, a global supplier of bananas and other fresh produce; and *Ruddick*, a holding company for a leading regional supermarket chain in the southeast and a global manufacturer and distributor of industrial and consumer thread and textiles, both up for the quarter. We continue to maintain our weighting in *Longs Drug Stores* due to our anticipation of better-than-expected margin improvement. We sold *NBTY* as a modest disappointment.

We reduced our weighting in the Financial Services sector from 12% to 9.5%. Our strongest performance in the sector came from long time holding *Waddell & Reed*, up over 33% for the quarter and up over 50% since initial purchase. New purchase, *Investment Technology Group*, which provides trade execution and investment analysis to investment firms, also performed well for the quarter. We took profits in *OptionsXpress*, which provides online brokerage services. We continue to hold a few specific regional banks with clean balance sheets and conservative loan portfolios in anticipation of recovery of this sector in 2008. We sold *Corporate Office Properties Trust*, *Texas Capital Bancshares*, *East West Bancorp*, and *First Industrial Realty*. Modest disappointments for the quarter included *Realty Income*, as well as *Digital Realty* and *Signature Bank NY*, which are up so far in 1Q2008.

We increased our Health Care sector weighting during the quarter from 14% to 16% and have continued to increase our weighting during the first quarter of 2008. Our Health Care sector outperformed the Index in the fourth quarter due to strong stock performance from *Perrigo*, *Haemonetics*, *Amedisys*, *Kendle International*, *Parexel International*, and *Owens & Minor*, all up double digits. New purchase, *Orthofix International*, a leader in sports medicine with braces, supports, and spinal implants, contributed positively to performance. We continue to seek companies providing cost containment, productivity in medical-record keeping, and innovative medical devices while avoiding companies reliant on binary events like FDA approval or congressional actions.

In the Industrial side of the economy, we increased our weighting during the quarter in Materials and Processing from 5.7% to 6.3%. Stocks in this sector contain a mix of homeland security, steel, and building materials companies. We took double-digit profits in our positions in telecom and power infrastructure plays, *Quanta Services* and *Cabot Microelectronic Corp*. We took profits in *Andersons* due to the potential overcapacity in U.S. ethanol production, sold *Texas Industries* in anticipation of slowing construction activity, and sold *Dycom Industries* due to a projected slowdown in telecom spending. New purchases, *AptarGroup*, a leader in providing innovative packaging for consumer staples, and *Emcor Group*, a leading mechanical contractor in the U.S., have performed well since purchase. We maintained our position in *Barnes Group*, which is up double digits since purchase. We outperformed in the Producer Durables sector. We had solid stock selection in this sector for the quarter contributing over 300 basis points of return. We maintained our overweight position of 12.5% versus 7.6% for the Index. We added *Mine Safety Appliances*, a leader in industrial and fire safety hardware (which is a rising trend), and *Belden*, the leading manufacturer of cable for the enterprise and industrial markets. We took profits in *Kennametal*, *Varian Semiconductor*, *Electro Scientific Industries*, and *Tektronix*, after its acquisition was announced. We maintained our positions in *Woodward Governor*, *Teledyne Technology*, *BE Aerospace*, *Middleby*, *Donaldson*, and *Manitowoc*, all up double digits for the quarter.

We increased our Energy weighting for the quarter from 7.8% to 10.9% and thus remain overweight the Index. We maintained our positions in *Foundation Coal Holdings*, *Petrohawk Energy*, *Bill Barrett*, and *Forest Oil Corp*. all advancing during the quarter. We sold our positions in oil service companies, *Oil States International* and *Goodrich Petroleum*, where exploration and earnings results did not meet expectations. We continue to invest in U.S. oil and natural gas producers and energy service companies.

We maintained our weighting in the Technology sector. Strong stock selection in this sector contributed over 700 basis points of return for the quarter. We added *Lawson Software*, which provides software and services solutions to customers in manufacturing, and *Foundry Networks*, which is a leading provider of high-end networking equipment for enterprises and telecom service providers. Strong performance during the quarter came from other market leaders such as *Cypress Semiconductor Corp.*, *Ansys*, *Flir Systems Inc.*, *Micros Systems*, and *Varian*, all up double digits. We sold *Semetech* due to concerns over the weakening of the computing and communications sector and earnings disappointment. We took profits in a telecom supplier purchased in 4Q2006 and 1Q2007, *ADC Telecom*. We continue to seek special situations with niche dominance that generate solid earnings growth in the Tech sector while avoiding secondary suppliers.

We increased our weighting in the Utilities sector for the quarter from 1.7% to 5.1%. Strong stock selection was the catalyst for the outperformance in this sector for the quarter, outperforming the index by over 400 basis points. We continue to seek companies in this sector that, we believe, have specific advantages to enhance earnings such as strong population growth, positive regulatory environment, low cost fuel sources such as hydro power, and special projects. We maintained our positions in *Portland General Electric*, *Northwest Natural Gas Co.*, and *Vectren Corp.*, all participating in our theme of strong population growth, natural gas producers, and low cost fuel sources. New purchases *Cleco Corp.* and *Avista*, which are alternative energy sources, both contributed positively to performance.

## MARKET OUTLOOK

We anticipate further volatility in the market until the extent of the financial dislocation and the consequent economic downturn is priced into stocks. Historically, bear markets last on average about nine months. Thus if the Russell downturn started in July of 2007, we can look for a stronger market possibly in 2Q2008. Of course, predicting the market is difficult, investing in the correct companies is our job, and that is very concrete.

In 2008, we continue to emphasize stocks of companies where growth can persist regardless of the strength of the economy. However, we are becoming interested in the leading consumer, trucking, and regional bank stocks that have reached our valuation levels after their recent dramatic sell-off. In the Financial sector, we continue to prefer suppliers of technology and products to the capital markets such as *Investment Technology Group*. We always seek companies with a special catalyst such as new

management or industry regulation, weakened competitive landscape, recurring revenues, or true innovation—where consistency and growth of earnings is driven by a company's profit model as well as external demand for their products or services. We strive to keep the risk of the portfolio low while not reducing its potential appreciation by investing in companies with the above factors, as well as strong balance sheets and cash flows, businesses with more inelastic demand, consistently growing revenues, and, when possible, dividends.

-Irene G. Hoover, CFA\*

\*Irene G. Hoover has earned the right to use the Chartered Financial Analyst designation.

Forward Hoover Small Cap Equity Fund—Top Ten holdings as of 12/31/07:

Top Ten Holdings	% Fund with Cash
Waddell & Reed Financial, Inc., Class A	2.23%
Cybersource Corp.	1.84%
Bucyrus International, Inc., Class A	1.78%
Perrigo Co.	1.76%
United Natural Foods, Inc.	1.66%
Foundation Coal Holdings, Inc.	1.58%
optionsXpress Holdings, Inc.	1.56%
Amedisys, Inc.	1.56%
Pediatrix Medical Group, Inc.	1.52%
Fresh Del Monte Produce, Inc.	1.47%

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

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.

**Small company stocks are generally riskier than large company stocks due to greater volatility and less liquidity. There are risks involved with investing, including loss of principal. Past performance does not guarantee future results.**

*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.*

Forward Funds are distributed by ALPS Distributors, Inc.

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As of December 31, 2007, the Fund held the following positions in the portfolio (These holdings may not reflect the current or future positions in the portfolio. Portfolio holdings are subject to change.):

**Forward Hoover Small Cap Equity Fund**

As of 12/31/2007

Security ID	Ticker	Security Name	# of Shares	Market Price	Market Value	% of Total Net Assets	Currency Code
930059100	WDR	Waddell & Reed Financial, Inc., Class A	356,200	\$ 36.09	\$ 12,855,258	2.23%	USD
23251J106	CYBS	Cybersource Corp.	597,000	17.77	10,608,690	1.84%	USD
118759109	BUCY	Bucyrus International, Inc., Class A	102,950	99.39	10,232,201	1.78%	USD
714290103	PRGO	Perrigo Co.	289,100	35.01	10,121,391	1.76%	USD
911163103	UNFI	United Natural Foods, Inc.	300,600	31.72	9,535,032	1.66%	USD
35039W100	FCL	Foundation Coal Holdings, Inc.	173,700	52.50	9,119,250	1.58%	USD
684010101	OXPS	optionsXpress Holdings, Inc.	265,800	33.82	8,989,356	1.56%	USD
023436108	AMED	Amedisys, Inc.	185,000	48.52	8,976,200	1.56%	USD
705324101	PDX	Pediatrix Medical Group, Inc.	128,400	68.15	8,750,460	1.52%	USD
G36738105	FDP	Fresh Del Monte Produce, Inc.	252,800	33.58	8,489,024	1.47%	USD
699462107	PRXL	PAREXEL International Corp.	174,700	48.30	8,438,010	1.46%	USD
251893103	DV	DeVry, Inc.	161,700	51.96	8,401,932	1.46%	USD
501889208	LKQX	LKQ Corp.	398,700	21.02	8,380,674	1.45%	USD
232806109	CY	Cypress Semiconductor Corp.	231,500	36.03	8,340,945	1.45%	USD
46145F105	ITG	Investment Technology Group, Inc.	169,100	47.59	8,047,469	1.40%	USD
781258108	RDK	Ruddick Corp.	227,400	34.67	7,883,958	1.37%	USD
922206107	VARI	Varian, Inc.	120,200	65.30	7,849,060	1.36%	USD
826919102	SLAB	Silicon Laboratories, Inc.	202,000	37.43	7,560,860	1.31%	USD
69366A100	PSSI	PSS World Medical, Inc.	374,000	19.57	7,319,180	1.27%	USD
707882106	PVA	Penn Virginia Corp.	166,900	43.63	7,281,847	1.26%	USD
262037104	DRQ	Dril-Quip, Inc.	130,700	55.66	7,274,762	1.26%	USD
077454106	BDC	Belden, Inc.	161,300	44.50	7,177,850	1.25%	USD
980745103	WGOV	Woodward Governor Co.	104,600	67.95	7,107,570	1.23%	USD
007974108	ADVS	Advent Software, Inc.	130,000	54.10	7,033,000	1.22%	USD
775711104	ROL	Rollins, Inc.	365,100	19.20	7,009,920	1.22%	USD
144577103	CRZO	Carrizo Oil & Gas, Inc.	125,000	54.75	6,843,750	1.19%	USD
131193104	ELY	Callaway Golf Co.	391,300	17.43	6,820,359	1.18%	USD
879360105	TDY	Teledyne Technologies, Inc.	126,700	53.33	6,756,911	1.17%	USD
N6748L102	OFIX	Orthofix International N.V.	116,400	57.97	6,747,708	1.17%	USD
695156109	PKG	Packaging Corp. of America	237,600	28.20	6,700,320	1.16%	USD
67020Y100	NUAN	Nuance Communications, Inc.	346,600	18.68	6,474,488	1.12%	USD
37250W108	GEOY	GeoEye, Inc.	191,700	33.65	6,450,705	1.12%	USD
015271109	ARE	Alexandria Real Estate Equities, Inc.	62,900	101.67	6,395,043	1.11%	USD
405024100	HAE	Haemonetics Corp.	101,000	63.02	6,365,020	1.10%	USD
63227W203	NTG	NATCO Group, Inc.	116,700	54.15	6,319,305	1.10%	USD
896818101	TGI	Triumph Group, Inc.	76,200	82.35	6,275,070	1.09%	USD
716495106	HK	PetroHawk Energy Corp.	362,500	17.31	6,274,875	1.09%	USD
92240G101	VVC	Vectren Corp.	215,800	29.01	6,260,358	1.09%	USD
12561W105	CNL	Cleco Corp.	224,200	27.80	6,232,760	1.08%	USD
48880L107	KNDL	Kendle International, Inc.	127,000	48.92	6,212,840	1.08%	USD
589584101	VIVO	Meridian Bioscience, Inc.	204,600	30.08	6,154,368	1.07%	USD
499005106	NITE	Knight Capital Group, Inc.	427,200	14.40	6,151,680	1.07%	USD

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As of 12/31/2007

Security ID	Ticker	Security Name	# of Shares	Market Price	Market Value	% of Total Net Assets	Currency Code
073302101	BEAV	BE Aerospace, Inc.	115,800	52.90	6,125,820	1.06%	USD
109473405	CELL	Brightpoint, Inc.	397,800	15.36	6,110,208	1.06%	USD
343498101	FLO	Flowers Foods, Inc.	258,400	23.41	6,049,144	1.05%	USD
667655104	NWN	Northwest Natural Gas Co.	123,400	48.66	6,004,644	1.04%	USD
29084Q100	EME	EMCOR Group, Inc.	254,000	23.63	6,002,020	1.04%	USD
747620102	NX	Quanex Corp.	114,700	51.90	5,952,930	1.03%	USD
690732102	OMI	Owens & Minor, Inc.	140,000	42.43	5,940,200	1.03%	USD
031100100	AME	AMETEK, Inc.	126,550	46.84	5,927,602	1.03%	USD
05379B107	AVA	Avista Corp.	275,048	21.54	5,924,534	1.03%	USD
085789105	BRY	Berry Petroleum Co.	132,300	44.45	5,880,735	1.02%	USD
740585104	PGI	Premiere Global Services, Inc.	395,900	14.85	5,879,115	1.02%	USD
52078P102	LWSN	Lawson Software, Inc.	572,900	10.24	5,866,496	1.02%	USD
253868103	DLR	Digital Realty Trust, Inc.	152,700	38.37	5,859,099	1.02%	USD
205768203	CRK	Comstock Resources, Inc.	171,300	34.00	5,824,200	1.01%	USD
038336103	ATR	Aptargroup, Inc.	142,100	40.91	5,813,311	1.01%	USD
109696104	BCO	The Brink's Co.	97,300	59.74	5,812,702	1.01%	USD
421906108	HCSG	Healthcare Services Group, Inc.	274,051	21.18	5,804,400	1.01%	USD
257651109	DCI	Donaldson Co., Inc.	125,100	46.38	5,802,138	1.01%	USD
22025Y407	CXW	Corrections Corp. of America	195,800	29.51	5,778,058	1.00%	USD
756109104	O	Realty Income Corp.	213,400	27.02	5,766,068	1.00%	USD
543162101	LDG	Longs Drug Stores Corp.	122,300	47.00	5,748,100	1.00%	USD
06846N104	BBG	Bill Barrett Corp.	135,700	41.87	5,681,759	0.99%	USD
011659109	ALK	Alaska Air Group, Inc.	224,700	25.01	5,619,747	0.98%	USD
93317Q105	WLT	Walter Industries, Inc.	156,000	35.93	5,605,080	0.97%	USD
602720104	MSA	Mine Safety Appliances Co.	107,100	51.87	5,555,277	0.96%	USD
162825103	CKP	Checkpoint Systems, Inc.	209,900	25.98	5,453,202	0.95%	USD
792228108	SM	St. Mary Land & Exploration Co.	140,600	38.61	5,428,566	0.94%	USD
302445101	FLIR	Flir Systems, Inc.	170,200	31.30	5,327,260	0.92%	USD
563571108	MTW	The Manitowoc Co., Inc.	106,200	48.83	5,185,746	0.90%	USD
36159R103	GEO	The GEO Group, Inc.	179,800	28.00	5,034,400	0.87%	USD
58449L100	MDCI	Medical Action Industries, Inc.	226,200	20.85	4,716,270	0.82%	USD
714046109	PKI	PerkinElmer, Inc.	173,000	26.02	4,501,460	0.78%	USD
35063R100	FDRY	Foundry Networks, Inc.	236,600	17.52	4,145,232	0.72%	USD
55027E102	LMNX	Luminex Corp.	254,200	16.24	4,128,208	0.72%	USD
934390402	WRNC	The Warnaco Group, Inc.	113,700	34.80	3,956,760	0.69%	USD
03662Q105	ANSS	ANSYS, Inc.	89,700	41.46	3,718,962	0.65%	USD
346091705	FST	Forest Oil Corp.	72,300	50.84	3,675,732	0.64%	USD
879939106	TTEC	TeleTech Holdings, Inc.	165,400	21.27	3,518,058	0.61%	USD
53217R207	LTM	Life Time Fitness, Inc.	70,800	49.68	3,517,344	0.61%	USD
594901100	MCRS	Micros Systems, Inc.	49,600	70.16	3,479,936	0.60%	USD
85254C305	SSI	Stage Stores, Inc.	228,600	14.80	3,383,280	0.59%	USD
82669G104	SBNY	Signature Bank	95,500	33.75	3,223,125	0.56%	USD
261608103	DRC	Dresser-Rand Group, Inc.	80,300	39.05	3,135,715	0.54%	USD

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As of 12/31/2007

<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>
067806109	B	Barnes Group, Inc.	91,900	33.39	3,068,541	0.53%	USD
043136100	ARTC	Arthrocare Corp.	61,600	48.05	2,959,880	0.51%	USD
736508847	POR	Portland General Electric Co.	104,400	27.78	2,900,232	0.50%	USD
78486Q101	SIVB	SVB Financial Group	56,900	50.40	2,867,760	0.50%	USD
835451105	SONC	Sonic Corp.	128,200	21.90	2,807,580	0.49%	USD
23330X100	DRS	DRS Technologies, Inc.	43,200	54.27	2,344,464	0.41%	USD
564563104	MANT	Mantech International Corp.	40,400	43.82	1,770,328	0.31%	USD
127190304	CAI	CACI International, Inc., Class A	35,100	44.77	1,571,427	0.27%	USD
29358P101	ENSG	The Ensign Group, Inc.	78,300	14.40	1,127,520	0.20%	USD
8676EP108	STKL	SunOpta, Inc.	81,100	13.35	1,082,685	0.19%	USD
		Net Cash & Cash Equivalent			9,542,585	1.66%	