Fourth Quarter 2007

Forward Long/Short Credit Analysis Fund

Managed by Cedar Ridge Partners, LLC

Performance as of December 31, 2007	4Q07	YTD	Since Inception‡	Gross/Net§ Expenses
Forward Long/Short Credit Analysis Fund—A (NAV)*	-6.30%	-17.26%	-17.26%	**4.49%**/3.51%
Forward Long/Short Credit Analysis Fund—A (MOP)†	-11.70%	-22.02%	-22.02%	
Lehman Brothers U.S. Municipal Index	1.37%	5.19%	5.19%	
Lehman Brothers U.S. Corporate High-Yield Index	-1.30%	1.87%	1.87%	

*Excludes sales charge
†Reflects effects of the Fund's maximum sales charge of 5.75%
‡10/29/06
§The Fund's investment advisor has contractually agreed to waive a portion of its asset-based management fee until January 31, 2008, in amounts necessary to limit the Fund's operating expenses (exclusive of the performance fee, 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 1.59%.

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. Total return is based on NAV, assuming the 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 current to the most recent month-end may be obtained at www.forwardfunds.com or by calling (800) 999-6809.

MARKET REVIEW

Despite calls to move quicker and to reduce rates further, we believe the Federal Reserve actions to date have been prudent. While painful, the unwinding of the subprime and asset backed commercial paper markets is continuing. In our view, we are not out of the woods yet as additional disclosures of losses are likely as 4th quarter reports and 2007 annual statements are released. Some analysts are suggesting that the 4th quarter may be the worst earnings period for the financial industry since the Great Depression. Citigroup, Inc. announced Tuesday the biggest loss in the bank's 196-year history, with a subprime write down of $18 billion; the bank also reduced its dividend by 41 percent and obtained $14.5 billion in new capital from outside investors to shore up its depleted capital base. From this backdrop, we expect the Federal Reserve will cut the federal funds rate at least 25 basis points at its meeting on January 30 (from 4.25% to 4.00%). In an effort to forestall a recession in 2008, it is possible that the Fed could initiate a 50–75 basis points cut (to 3.75% or 3.50%). The U.S. Treasury yield curve has continued to steepen with the calls for additional rate-cutting. The 2s-10 Treasury yield curve is a positive 122 basis points (2.51 to 3.73%); the 2s-30 Treasury curve is a positive 183 basis points (2.51 to 4.34%). In our view, when considering any incremental easing of credit terms, the Fed must also take into account the impact of such actions on both the value of the dollar and potential inflationary expectations. While erring on the side of too much easing may seem prudent (and perhaps is likely), the potential for inflaming inflationary pressures must be weighed. Too much easing could see long rates rising and spreads widening, as a result of investor views on inflationary pressures. While not easing enough could tip the economy into a housing-led recession, the Fed seems poised to ease as much as necessary to avoid recession. If the U.S. economy enters recession, it is unclear at this point how low rates might have to fall to enlist market participants and consumers to move economic activity back into the black.

We believe ultimately that the Fed will continue to be challenged by its "dual mandate" of price stability and value of the dollar versus any target rate of economic growth. Recent Fed action has been in response to market conditions that have called on them "to remain engaged." We still hold the view that longer-term rates may remain range bound, albeit at higher overall levels than in recent months as the "flight to quality" subsides. We need to be mindful that a lot of negative news has already been priced into the markets. Once the market becomes convinced of Fed policy and the direction of economic activity, we would not be surprised to see the yield curve flatten. The Fed has acknowledged that the stress in the housing sector has had, and will likely continue to have, a negative impact on domestic economic activity. Given that mortgage rates are directly impacted by the level of 10-year U.S. Treasury rates, aggressive easing by the Fed could unintentionally add stress in the housing market by causing mortgage rates to rise, and inadvertently reduce the demand for mortgage loans.

The Fund will invest in lower-rated debt securities and may utilize derivatives for hedging purposes. The Fund's use of short selling involves additional risks and transaction costs, and creates leverage, which can increase the volatility of the Fund. The Fund may invest a larger percentage of its assets in the securities of a smaller number of issuers, since it is a "non-diversified" mutual fund.

High-yield bonds involve a greater risk of default and price volatility than U.S. Government and other high quality bonds. High-yield/high-risk bonds will experience sudden and sharp price swings, which will affect net asset value. The Fund's prospectus allows for investment in non-investment grade securities.

The Lehman Brothers U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, respectively.

The Lehman Brothers U.S. Municipal Index covers the USD-denominated long-term, tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds.

The index figures do not reflect any deduction for fees, expenses or taxes. It is not possible to invest directly in an index.

Please consider the investment objectives, risks, charges and expenses carefully before investing in the Fund. A prospectus with this and other information about the Fund may be obtained by calling (888) 312-4100 or by downloading one from www.forwardfunds.com. Please read it carefully before making a final investment decision.

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