

January 2008

**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 REITs 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](http://www.forwardfunds.com) or by calling (800) 999-6809.

**The Omnivore's Dilemma**

Humans have evolved the ability to eat a broad range of food because of two contradictory instincts. In Michael Pollan's bestselling book, *The Omnivore's Dilemma*, he eloquently describes the conundrum omnivores are afflicted with: neophobia and neophilia. Food neophobia is a fear of ingesting anything new and unknown, whereas food neophilia is an openness and desire for new tastes. Omnivores devote a remarkable amount of brainpower balancing these two instincts, which allows them to eat a remarkable array of different foods.

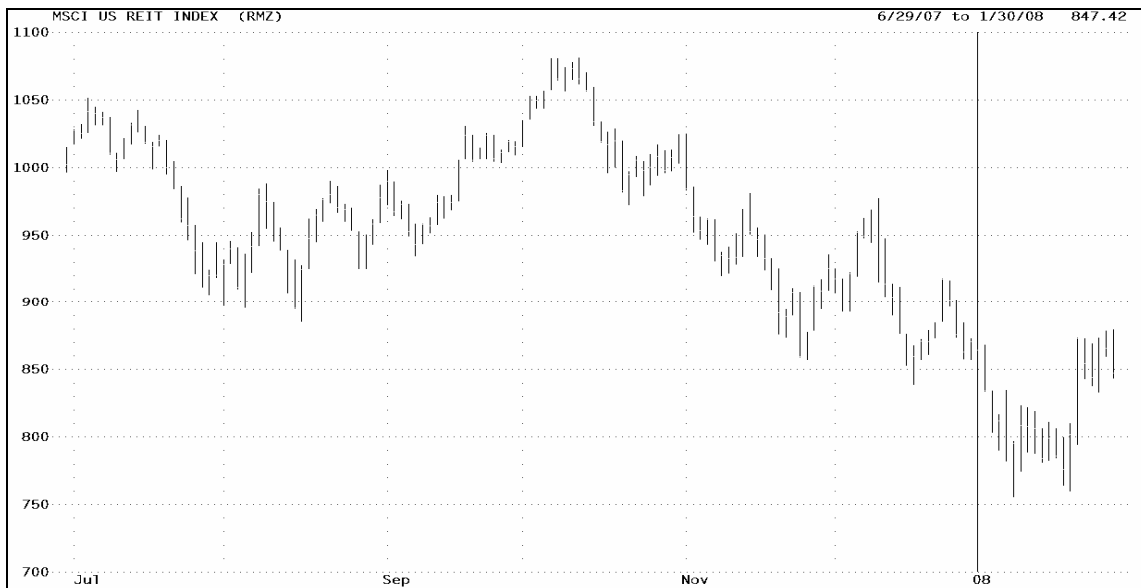
Let me suggest that we are REIT omnivores. Given the correct set of circumstances, there are very few REITs we would simply not want to own—a sort of REIT neophilia. This is balanced against our REIT neophobia—a genuine fear that some unknown factor will hurt or possibly kill us as a result of owning a particular REIT. When it comes to REIT investing, we, too, devote a remarkable amount of brainpower balancing these two factors.

In his book, Pollan describes hiking into the woods and finding a big, fleshy, vase-shaped mushroom growing under an oak tree. Certain it was a chanterelle, he picked the fungi and took it home. Once home, he consulted his field guides to be sure he had the genuine article. After a careful comparison to the picture and description in the book, he no longer felt certain the mushroom he had was a chanterelle. Uncertainty about its safety overshadowed his desire to eat his prize. He was impaled on the horns of the omnivore's dilemma.

In many ways, the chanterelle story reflects our dilemma with REITs. Market conditions have created a situation where it appears that there are many tasty opportunities on which to fill our portfolio. REITs that have become so attractively valued that there seems to be no reason not to fill up on them. However, the last year has brought lingering doubts about the sector. Each time we thought there might be an opportunity, we were surprised by another painful downward leg in the REIT sector.

The numbers themselves don't reflect the remarkable level of volatility witnessed in the REIT sector, as well as in the broader markets. As can be seen in the price chart below, the REIT market appears to bottom in August and begin a sustained rally, moving 21% higher between August 15 and October 5, 2007, only to plunge to new lows by year-end. There is cautious but growing optimism among some buy-side REIT veterans who feel prices have simply moved too low. Several of my hedge fund friends called last week to discuss if now was the time to cover the shorts and go long the sector. Traders we spoke with indicated that the rally during the last two weeks of January was sparked largely by short covering, triggered by the Fed's most recent rate

cut and two announced REIT LBO deals. Although these signs are encouraging, the call of a bottom can only be made in hindsight and the volatility is likely to continue.



Source: Baseline, Inc.,

**Valuation**

Valuations are approaching their 10-year lows on a number of measures. Most importantly, NAV’s have moved down to 81%, only five percentage points off the lows reached during the tech boom of 1999 and 2000. These appear to be “three standard deviation events” and are worth a hard look, but we continue to be unsettled by the emotion we are witnessing in all financial markets, both here and abroad. It’s important to remember that markets reflect future expectations. In this case, the REIT market is reflecting lower private market commercial real estate valuations. One could argue that the REIT sector is reflecting too large a drop in private market valuations and that, currently, REITs are a tremendous value. However, our concern is this: as private market valuations move lower (and we expect they will, absent any meaningful commercial mortgage-backed securities market function), how will public REITs react? They could rally to more accurately reflect actual cap rates or they could continue to move lower, maintaining their current deep discount to reflect the perceived risk in the real estate sector. We are concerned about the latter and so we continue to *play defense* and remain more conservative in our approach to the portfolio.

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 REITs Index Yield vs. 10-Year Treasury Bond Yield	-136 bps	98 bps	325 bps	143 bps
FTSE NAREIT Equity REITs Index Yield vs. S&P Utility Yield	30 bps	214 bps	465 bps	215 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

**Conclusion—Still Good, Bad and Ugly**

We have seen some ugly and some bad, but we can also see some good. In our opinion, current valuations, coupled with what appears to be a continued positive earnings environment in REITs, should ultimately translate into better market performance in general for REITs. However, we are now faced with the possibility of a retest of the January lows, which could happen in the face of the huge volatility we have seen of late. This leads us to continue to *play defense* with our portfolio—we understand we have to stay in the game. While closely monitoring trends in operating earnings at the company level, we will continue *playing defense* until we are past this period and observe more stability in the REIT markets.

—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 REITs 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](http://www.forwardfunds.com). It should be read carefully before investing.*

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