

February 2008

## Forward Asia ex-Japan Equities Fund

*Sub-Advised by Pictet Asset Management Ltd.*

### MARKET REVIEW

The benchmark index rose 5.86% in U.S. terms following a 13.8% decline in January. With the exception of Hong Kong (-2.2%), India (-2.4%), and the Philippines (-4.2%), all other markets posted gains. The index was buoyed by strong performance from Taiwan (+14.83%), China (+10.8%), and Thailand (+13.4%). By sector, materials and industrials were the biggest winners.

Taiwan's stellar performance was heartening as we have been bullish early on this market, reflecting both its compelling valuations and strong latent liquidity. Also the approaching March 22 presidential elections should sustain a material improvement in cross-straits relationship and overall confidence on the island. If this proves to be the case, we see this as the beginning of a medium-term asset and currency appreciation trend, after multi-year under performance. Thailand was also a relative bright spot regionally, as the removal of Thai capital controls was a positive signal from the new Government that they wish to return to a more pro-business stance.

### PERFORMANCE ANALYSIS

The portfolio failed to participate fully in the February bounce, thereby trailing the benchmark. Given our low conviction in a directional upward move in markets, our defensive position cost us some relative performance. By country Korea, China, and Vietnam detracted from returns while Taiwan, India, and South East Asia boosted performance. Within Korea, the biggest drag came from our substantial overweight in Korean financials, which remain at floor level valuations despite strong capital ratios and stable underlying asset quality. Lack of traction on capital management at the over-capitalized Kookmin Bank has dented share price performance.

### PERFORMANCE ACTIVITY: OVERWEIGHTINGS AND UNDERWEIGHTINGS

We continued culling portfolio exposure in China, which went to underweight at the start of the year. The key issues in China are inflation, a monetary policy tightening bias, weakening property sector, high valuations, and exposure to weak external demand. We also took profits in interest rate sensitive issues such as Hong Kong financials on declining transaction volumes in the property sector.

### MARKET OUTLOOK

Despite the rally in equity markets, we think the risk/return is skewed to the downside in Asian markets for now, and so we retain our defensive bias. It is true that coordinated monetary and fiscal action, as we are witnessing in the U.S. today, has staved off most crises over the past 15 years. But, this time the banks are capital deficient and have solvency issues. Whilst the credit crisis continues to spread, we do not believe the correction in western markets is over. This will in turn pressure Asia ex-Japan—we expect erratic trading ranges. While we are cautious, we are not outright bearish. We stick with yield, domestic exposure beneficiaries of Asian currency strength, which we see as an enduring theme. Looking further out on a 12–18 month view, the region's attractions in terms of demographics, systemic growth, productivity gains, low leverage, and large surpluses remain intact.

### PORTFOLIO STRATEGY

The portfolio will remain overweight in domestic demand sectors—consumer staples, financials, and telecom services—and underweight global cyclicals—industrials, information technology, and consumer discretionary. Despite a fall of over 35% from its October peak, China remains a market with serious near-term risk concerns. Although we expect the underlying economy to only slow moderately in 2008, we are focused on potential central bank and monetary response to high headline inflation (CPI 8.7% in February) that has been worsened by severe winter weather. Any overly restrictive measures could have damaging knock on effects within the broad financial sector. Policy direction in China should be clarified somewhat following the National People's Congress meetings in March.

**Investing in foreign securities, especially emerging markets, will involve certain additional risks, including exchange rate fluctuation, less liquidity, greater volatility, and less regulation.**

*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 February 29, 2008, 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 Asia Ex-Japan Equities Fund

As of 02/29/2008

Security ID	Ticker	Security Name	# of Shares	Market Price	Market Value	% of Total Net Assets	Currency Code
6771720	005930KS	Samsung Electronics Co., Ltd.	662	\$ 596.35	\$ 394,782	5.69%	KRW
6073556	941 HK	China Mobile, Ltd.	23,000	15.42	354,697	5.11%	HKD
6889106	2330 TT	Taiwan Semiconductor Manufacturing Co., Ltd.	136,000	1.99	270,988	3.91%	TWD
06739F291	INP	iPath MSCI India Index ETN	3,423	73.50	251,591	3.63%	USD
6693233	005490KS	POSCO	317	564.40	178,915	2.58%	KRW
6419365	060000KS	Kookmin Bank	2,710	62.72	169,979	2.45%	KRW
6109439	1722 TT	Taiwan Fertilizer Co., Ltd.	36,000	4.04	145,560	2.10%	TWD
6043485	BUMI IJ	PT Bumi Resources Tbk	149,500	0.85	126,988	1.83%	IDR
6505316	030200KS	KT Corp.	2,440	49.52	120,824	1.74%	KRW
6287841	2412 TT	Chunghwa Telecom Co., Ltd.	46,000	2.51	115,316	1.66%	TWD
6436557	3 HK	Hong Kong & China Gas Co., Ltd.	37,000	2.96	109,365	1.58%	HKD
6190950	2002 TT	China Steel Corp.	69,000	1.52	104,901	1.51%	TWD
B00G0S5	883 HK	CNOOC, Ltd.	60,000	1.72	103,479	1.49%	HKD
6331470	1402 TT	Far Eastern Textile, Ltd.	60,000	1.68	100,534	1.45%	TWD
6448068	13 HK	Hutchison Whampoa, Ltd.	10,000	9.54	95,357	1.37%	HKD
B0RNRF5	086790KS	Hana Financial Group, Inc.	2,120	44.73	94,819	1.37%	KRW
6190273	1 HK	Cheung Kong Holdings, Ltd.	6,000	15.29	91,758	1.32%	HKD
6527666	2891 TT	Chinatrust Financial Holding Co., Ltd.	99,000	0.91	90,466	1.30%	TWD
6424110	2885 TT	Yuanta Financial Holding Co., Ltd.	94,000	0.91	85,441	1.23%	TWD
6805049	004170KS	Shinsegae Co., Ltd.	124	628.29	77,909	1.12%	KRW
6321642	330 HK	Esprit Holdings, Ltd.	6,000	12.88	77,262	1.11%	HKD
6869937	1101 TT	Taiwan Cement Corp.	43,000	1.78	76,500	1.10%	TWD
6175076	033780KS	KT&G Corp.	921	82.85	76,305	1.10%	KRW
6056331	1102 TT	Asia Cement Corp.	44,000	1.69	74,436	1.07%	TWD
6425395	2600 HK	Aluminum Corp. of China, Ltd.	36,000	2.02	72,636	1.05%	HKD
6700393	1216 TT	Uni-President Enterprises Corp.	48,000	1.48	70,956	1.02%	TWD
B012W53	PBKF MK	Public Bank, Bhd	21,100	3.32	70,014	1.01%	MYR
6408374	11 HK	Hang Seng Bank, Ltd.	3,600	19.29	69,443	1.00%	HKD
B09N7M0	1088 HK	China Shenhua Energy Co., Ltd.	12,500	5.24	65,542	0.94%	HKD
6291819	386 HK	China Petroleum & Chemical Corp.	56,000	1.14	63,691	0.92%	HKD
6260734	2308 TT	Delta Electronics, Inc.	22,000	2.89	63,548	0.92%	TWD
B01FLR7	2318 HK	Ping An Insurance Co. of China, Ltd.	8,000	7.81	62,509	0.90%	HKD
6420390	PTT/F TB	PTT Pcl	5,700	10.87	61,935	0.89%	THB
B1Y3WG1	IOI MK	IOI Corp., Bhd	24,500	2.52	61,739	0.89%	MYR
B232R05	096770KS	SK Energy Co., Ltd.	418	138.97	58,090	0.84%	KRW
6264048	966 HK	China Insurance International Holdings Co., Ltd.	21,000	2.63	55,325	0.80%	HKD
6559335	728 HK	China Telecom Corp., Ltd.	72,000	0.76	55,055	0.79%	HKD
6411673	2881 TT	Fubon Financial Holding Co., Ltd.	49,000	1.12	54,920	0.79%	TWD
6859927	16 HK	Sun Hung Kai Properties, Ltd.	3,000	17.86	53,590	0.77%	HKD
6155250	000810KS	Samsung Fire & Marine Insurance Co., Ltd.	265	199.67	52,913	0.76%	KRW
6182076	036460KS	Korea Gas Corp.	698	75.50	52,700	0.76%	KRW
B00PTJ6	ITD/F TB	Italian-Thai Development Pcl	181,576	0.29	52,497	0.76%	THB

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6867748	19 HK	Swire Pacific, Ltd.	4,500	11.60	52,192	0.75%	HKD
6580119	2892 TT	First Financial Holding Co., Ltd.	57,000	0.92	52,179	0.75%	TWD
B01JCK9	2331 HK	Li Ning Co., Ltd.	16,500	3.16	52,164	0.75%	HKD
6916781	UOB SP	United Overseas Bank, Ltd.	4,000	12.92	51,674	0.74%	SGD
6224871	017670KS	SK Telecom Co., Ltd.	249	204.99	51,044	0.74%	KRW
6536112	2388 HK	BOC Hong Kong Holdings, Ltd.	20,000	2.51	50,120	0.72%	HKD
6888794	KBANK/F	Kasikornbank Pcl	17,200	2.84	48,909	0.71%	THB
6189657	2610 TT	China Airlines	84,000	0.55	46,327	0.67%	TWD
6771601	000830KS	Samsung Corp.	740	62.40	46,179	0.67%	KRW
6719764	PGAS IJ	PT Perusahaan Gas Negara	29,500	1.52	44,909	0.65%	IDR
6560393	035420KS	NHN Corp.	197	227.36	44,789	0.65%	KRW
6425663	2882 TT	Cathay Financial Holding Co., Ltd.	17,000	2.59	43,992	0.63%	TWD
6099671	902 HK	Huaneng Power International, Inc.	52,000	0.84	43,571	0.63%	HKD
6496755	000880KS	Hanwha Corp.	690	61.98	42,765	0.62%	KRW
6230845	UNTR IJ	PT United Tractors Tbk	29,000	1.46	42,388	0.61%	IDR
6810010	363 HK	Shanghai Industrial Holdings, Ltd.	10,000	4.14	41,446	0.60%	HKD
6461850	004020KS	Hyundai Steel Co.	511	79.12	40,432	0.58%	KRW
6075949	BAY/F TB	Bank of Ayudhya Pcl	47,700	0.81	38,645	0.56%	THB
6179755	293 HK	Cathay Pacific Airways, Ltd.	18,000	2.09	37,567	0.54%	HKD
B1DYPZ5	3968 HK	China Merchants Bank Co., Ltd.	10,351	3.57	36,981	0.53%	HKD
B04KNF1	753 HK	Air China, Ltd.	38,000	0.97	36,870	0.53%	HKD
6075745	BCHB MK	Bumiputra-Commerce Holdings Bhd	11,200	3.29	36,813	0.53%	MYR
6889935	SCB/F TB	Siam Commercial Bank Pcl	12,900	2.79	35,964	0.52%	THB
6372480	2454 TT	MediaTek, Inc.	3,000	11.52	34,546	0.50%	TWD
B1G1QD8	1398 HK	Industrial & Commercial Bank of China, Ltd.	48,000	0.71	34,174	0.49%	HKD
6420538	12 HK	Henderson Land Development Co., Ltd.	4,000	7.95	31,820	0.46%	HKD
6361466	KTB-R TB	Krung Thai Bank Pcl	93,600	0.34	31,820	0.46%	THB
6704986	2912 TT	President Chain Store Corp.	9,000	3.44	31,004	0.45%	TWD
6164472	GGR SP	Golden Agri-Resources, Ltd.	38,000	0.81	30,784	0.44%	SGD
6497004	010060KS	DC Chemical Co., Ltd.	82	367.39	30,126	0.43%	KRW
6868398	T MK	Telekom Malaysia Bhd	8,300	3.57	29,620	0.43%	MYR
B03PGR0	906 HK	China Netcom Group Corp. Hong Kong, Ltd.	8,708	3.17	27,586	0.40%	HKD
6709099	BBRI IJ	PT Bank Rakyat Indonesia	34,000	0.79	27,005	0.39%	IDR
6175203	DBS SP	DBS Group Holdings, Ltd.	2,000	12.43	24,862	0.36%	SGD
6486314	683 HK	Kerry Properties, Ltd.	3,500	6.82	23,884	0.34%	HKD
B09JBT3	AC PM	Ayala Corp.	2,210	10.75	23,758	0.34%	PHP
6205133	SMM SP	SembCorp Marine, Ltd.	9,000	2.62	23,615	0.34%	SGD
718252109	TEL PM	Philippine Long Distance Telephone Co.	320	71.67	22,933	0.33%	PHP
6811734	SIA SP	Singapore Airlines, Ltd.	2,000	11.00	21,994	0.32%	SGD
6523341	BDO PM	Banco de Oro-EPCI, Inc.	16,300	1.31	21,349	0.31%	PHP
B0MSW50	3339 HK	China Infrastructure Machinery Holdings, Ltd.	13,000	1.59	20,650	0.31%	SGD
6412591	ADVANC/F	Advanced Info Service Pcl	6,000	3.35	20,111	0.30%	THB
6451680	2887 TT	Taishin Financial Holdings Co., Ltd.	42,000	0.48	19,971	0.30%	TWD

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6725299	2899 HK	Zijin Mining Group Co., Ltd.	13,068	1.37	17,903	0.26%	HKD
6633767	17 HK	New World Development Co., Ltd.	6,000	2.76	16,540	0.24%	HKD
B01C1P6	BBCA IJ	PT Bank Central Asia	33,500	0.39	13,212	0.19%	IDR
B0WD5H8	037620KS	Mirae Asset Securities Co., Ltd.	81	146.96	11,904	0.17%	KRW
6192150	688 HK	China Overseas Land & Investment, Ltd.	4,004	1.99	7,966	0.11%	HKD
B0HZZ57	3368 HK	Parkson Retail Group, Ltd.	467	10.56	4,930	0.07%	HKD
B013KZ2	AH-R TB	Aapico Hitech Pcl	11,300	0.38	4,308	0.06%	THB
B24FHB4	3833 HK	Xinjiang Xinxin Mining Industry Co., Ltd.	2,000	0.91	1,827	0.03%	HKD
6263766	203 HK	Denway Motors, Ltd.	2,918	0.52	1,508	0.02%	HKD
B236JB2	826 HK	Tiangong Int'l. Co., Ltd.	2,000	0.53	1,056	0.02%	HKD
B23Z373	415 HK	China Overseas Land & Investment, Ltd., Warrants, (Expiring 08/27/08)	2,000	0.43	861	0.01%	HKD
B19H8Y8	2777 HK	Guangzhou R&F Properties Co., Ltd.	1	3.13	3	0.00%	HKD
		Net Cash & Cash Equivalents			819,361	11.81%	