

Forward Institutional

FORWARD MARKETS: AN ECONOMIC REVIEW

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Editors Note: We are changing the title of the *Monthly Economic Update* to more accurately reflect the information presented. This monthly publication will now be called *Monthly Economic Review* – as the information covered deals with the economic happenings from the previous month.

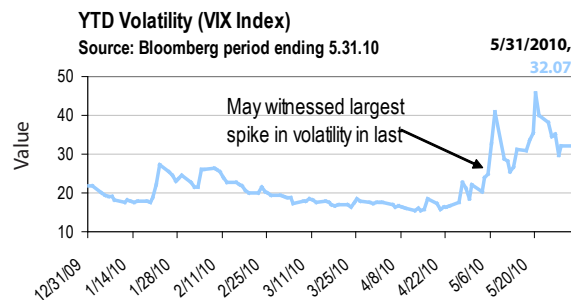
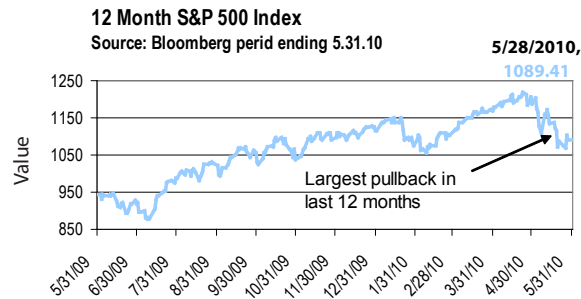
All data shown in this document is the most current available as of 5/31/2010



May Monthly Economic Review

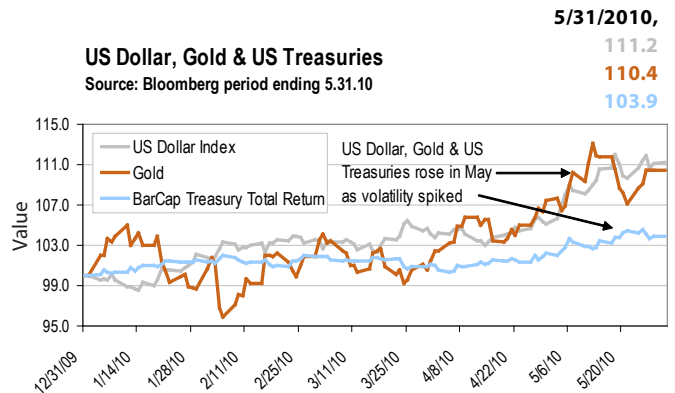
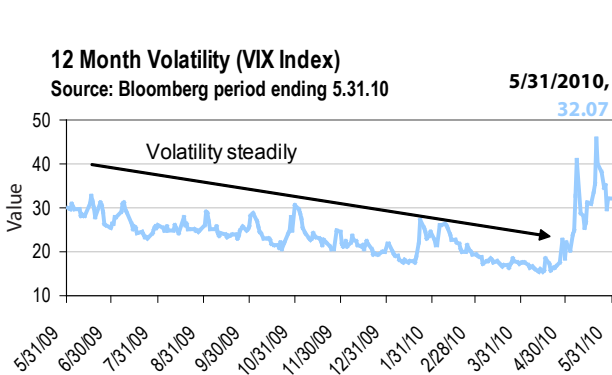
Euro crisis leads to market volatility

Since the height of the global economic crisis at the end of 2008 and early 2009, market volatility has been steadily trending down. In fact, prior to May 2010, the previous 12-month high in volatility, as measured by the VIX Index, was 37.6 in June 2009. But, the euro crisis has led to uncertainty in the marketplace and precipitated a sharp increase in volatility. May saw a VIX Index intraday high of 48.2, and 12 out of 20 trading days ended with volatility above 30.



The uncertainty in the market led to an 8% decline in the S&P 500 Index for the month of May, and a total decline of 12.1% from the April 23 high to the low on May 26, 2010. The peak-to-trough decline exceeded the 8% peak-to-trough decline that began in January and continued into February. However, corrections such as these can be healthy, as they allow sentiment and valuations to reach more rational levels, and potentially provide momentum for continued market recovery.

In times of increased volatility, investors may seek the safety of high quality assets such as Treasuries, gold and the U.S. dollar. While the S&P 500 corrected in May, U.S. Treasuries rose 1.7%, gold rose 2.8% and the U.S. dollar rose 5.8%.

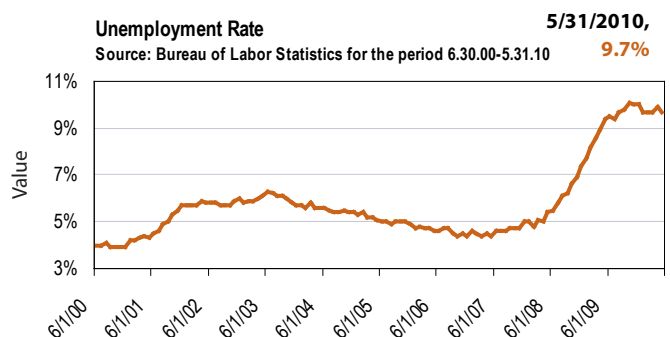
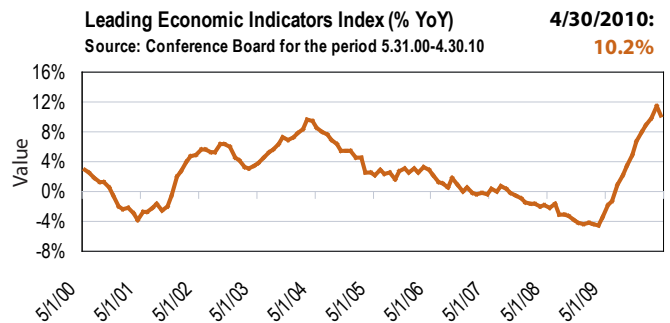
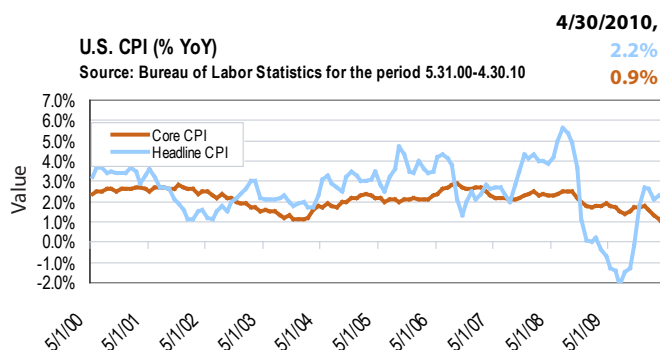


The Economy-U.S.

In April, the Leading Economic Indicators Index was up 10.2% year-over-year, a slight decline from the previous month's reading of 11.5%. While the index remains robust, we continue to monitor leading economic indicators for any further pullback, which could signal potential stagnation of the economic recovery. Unemployment fell to 9.7% in May, putting it back in line with the first quarter 2010 rate, and indicating that last month's increase to 9.9% may have been a short term anomaly.

Core inflation fell to 0.9% in April, the lowest core inflation reading since January 1966. This uncomfortably low inflation rate will likely prevent the Federal Reserve from raising rates in the near future. A decline in headline inflation to 2.2% provided further confirmation of the

slowdown in inflation. Should the pace of the economic recovery slow, we could be faced with the real possibility of deflation, as the Federal Reserve has no room to stimulate the economy and avoid deflation through further cuts to interest rates.

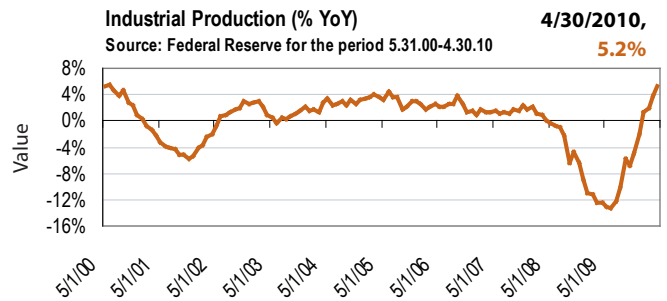
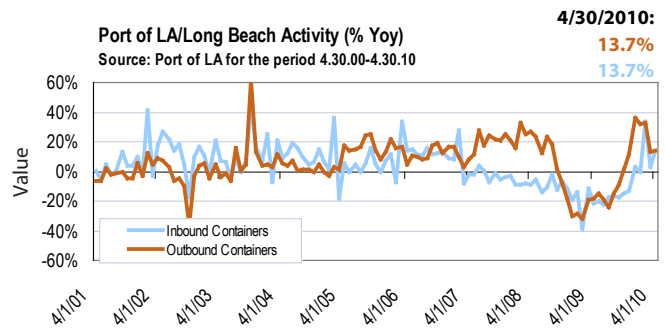
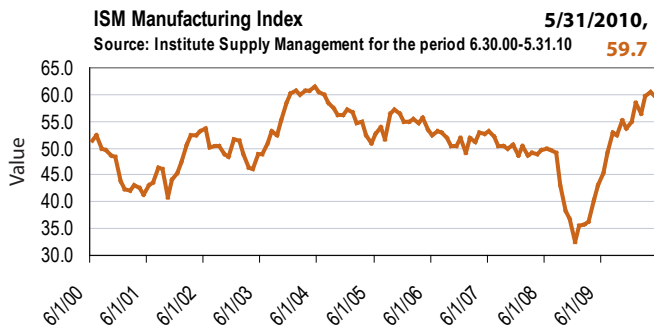


Manufacturing / Trade

Industrial production was up 5.2% over April a year ago—the highest year-over-year growth since January 2000, and a significant increase from the 3.9% reading in March. Industrial production is recovering at a slightly faster pace than the previous six expansions. The ISM Manufacturing Index declined by 0.7 points to 59.7. Despite the decline, the reading was actually ahead of forecasts and is consistent with 6.0% annualized GDP growth. Overall, the index saw broad-based gains with 16 out of 18 industry groups reporting growth.

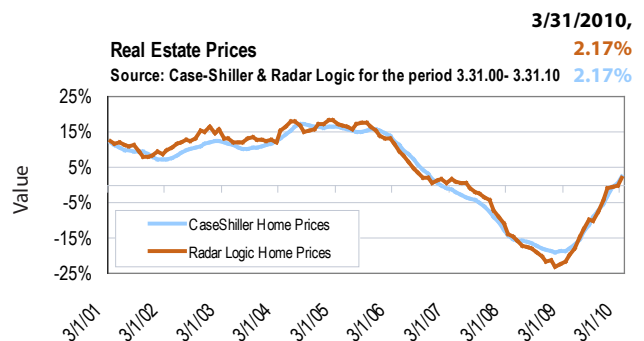
Trade has settled into a positive growth trend for both exports and imports. In April, total Port of Los Angeles/Port of Long Beach exports were up 13.7% over a year ago

and imports were up 13.6%. Exports have now had seven consecutive months of positive growth and imports have expanded for three straight months. It will be important to monitor exports regarding the effect of the euro decline on the ability of U.S. producers to compete with cheaper currencies such as the Euro.

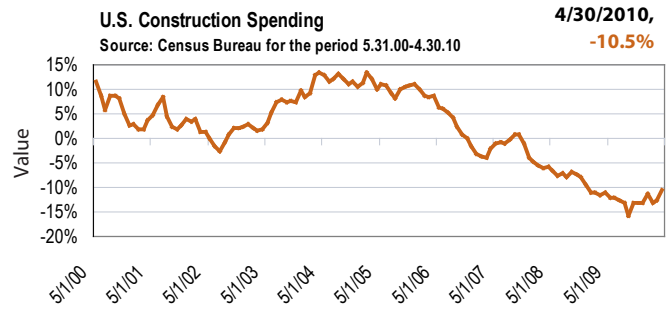
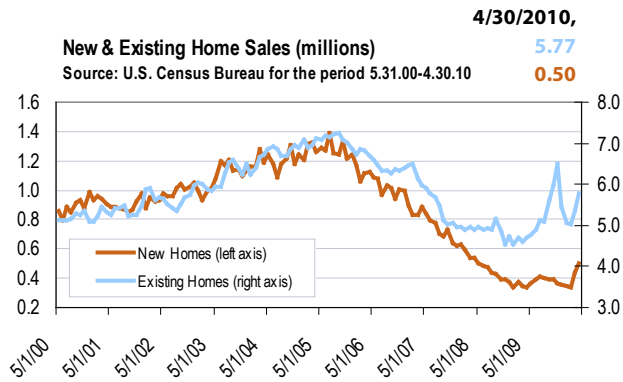


Real Estate

For the first time since December 2006, both the Case/Shiller Home Price Index and the Radar Logic Home Price Index showed positive year-over-year growth—up 2.4% and 2.2% respectively, in March. Positive home price appreciation may have a psychological effect on home buyers, as real estate may now be viewed as an asset that is no longer declining in value.

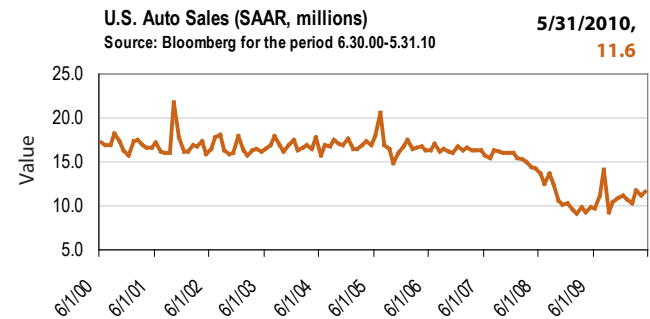
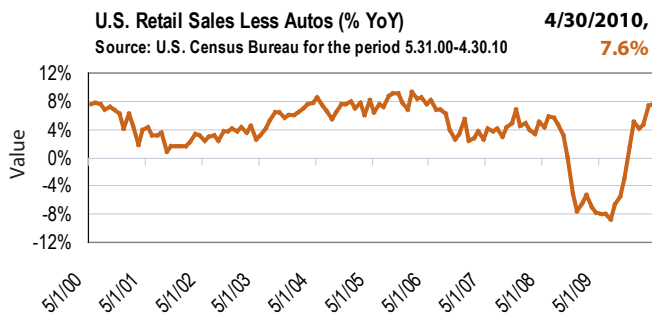
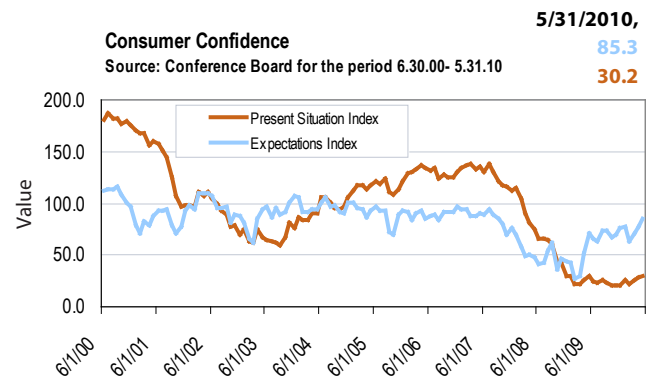


Home sales were strong in April, driven in part by the expiration of the new home buyer tax credit on April 30, 2010. The removal of this stimulus will have ramifications on homes sold moving forward. Similar to the “cash for clunkers” deal, home sale numbers have been artificially pulled forward and we may see a drop over the next few months or quarters.



Consumer

May auto sales rose to 11.6 million units on an annualized basis—the highest level since August 2009, when the “cash for clunkers” program ended. Sales have been consistently ahead of the levels seen a year ago and well above last year’s lows. Consumer confidence trended higher led by the Expectations Index which rose 8 points to 85.3 in May. The Present Situation Index has lagged expectations considerably, but recently showed improvement, moving up 2 points to 30.2. May retail sales excluding autos rose 7.6% over a year ago—the highest reading since May 2006, and a welcome sign that consumers are spending again.



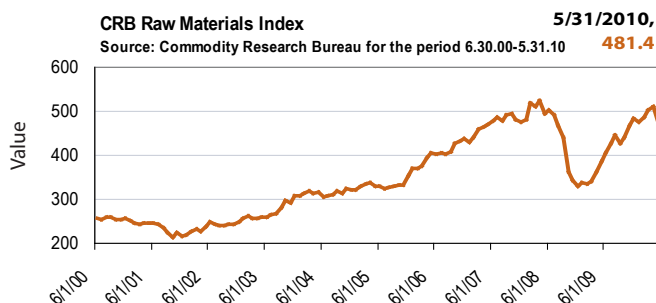
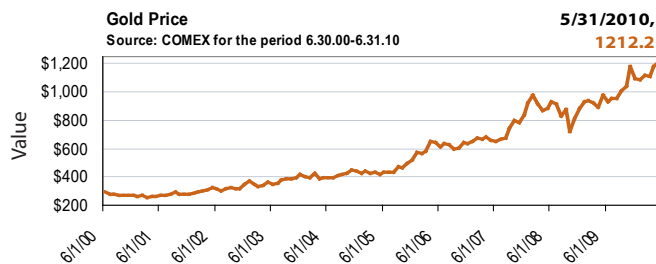
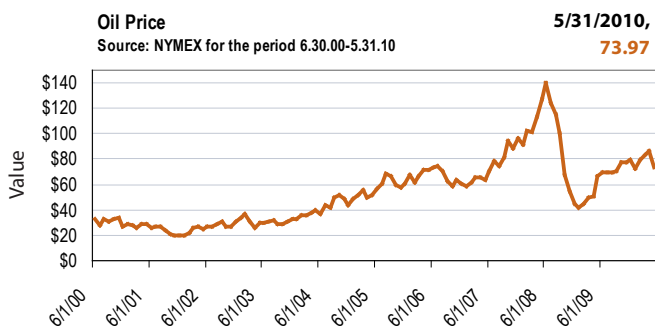
Commodities

Gold and oil prices diverged in May, with gold trending up to the highest month-end reading in history, and oil declining to \$74—about 15% off recent highs. Gold prices were likely inflated by the flight to safety due to the euro currency crisis, despite the fact that the U.S. dollar has been generally appreciating against major world currencies.

Even as the largest U.S. oil spill in history continues to drag on in the Gulf of Mexico, oil prices declined due to:

- U.S. dollar appreciation
- European economic growth projected to slow
- U.S. oil inventories are up

The CRB Raw Materials Index declined in May. Because this index is a much better gauge of raw material usage at the beginning stages of the manufacturing process, the decline may be due in part to the forecasted slowdown in Europe.



Investing involves risk, including possible loss of principal. Index returns are for illustrative purposes only and do not represent actual performance of any securities. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

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Definitions:

Gross domestic product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. The GDP of a country is one of the ways of measuring the size of its economy.

The S&P 500 Index is a capitalization-weighted index of 500 stocks traded on the NYSE, AMEX and OTC exchanges, and is comprised of industrial, financial, transportation and utility companies.

The VIX (the ticker symbol for the Chicago Board Options Exchange Volatility) Index is a popular measure of the implied volatility of S&P 500 index options. A high value corresponds to a more volatile market and, therefore, more costly options, which can be used to defray risk from volatility. Often referred to as the fear index, it represents one measure of the market's expectation of volatility over the next 30-day period.

The Conference Board Consumer Confidence expectations Index is an average of responses to the following questions: 1. Respondents expectations regarding business conditions six months hence. 2. Respondents expectations regarding employment conditions six months hence. 3. Respondents expectations regarding their total family income six months hence.

The Conference Board Consumer Confidence Present Situation Index is an average of responses to the following questions: 1. Respondents appraisal of current business conditions. 2. Respondents appraisal of the current employment conditions.

The Institute of Supply Management (ISM) Manufacturing Index is a monthly index that tracks the amount of manufacturing activity that occurred in the previous month. This data is considered a very important and trusted economic measure. If the index has a value below 50, due to a decrease in activity, it tends to indicate an economic recession, especially if the trend continues over several months. A value substantially above 50 likely indicates a time of economic growth. The values for the index can be between 0 and 100.

The US Unemployment Rate Index measures the US unemployment rate on a monthly basis. The unemployment rate represents the number unemployed persons as a percent of the labor force.

The Industrial Production Index measures real output and is expressed as a percentage of real output in a base year, currently 2002. The production indexes are computed as Fisher indexes since 1972; the weights are based on annual estimates of value added.

The Leading Economic Indicators Index measures average weekly hours, manufacturing, average weekly initial jobless claims, manufacturers' new orders, consumer, vendor performance, slower deliveries, manufacturers' new orders, capital, building permits, new private housing units, stock prices, 500 common stocks, money supply, interest rate spread, and index of consumer expectations.

The US Auto Sales - SAAR Index is seasonally adjusted annual sales of total light vehicles sold in U.S., in millions. Total sales are broken down by cars and light trucks that are manufactured in U.S., Mexico and Canada (Domestic), and those manufactured elsewhere (Imported).

The US Retail Sales, less autos Index measures adjusted retail sales, ex-autos, yearly percentage change. Adjusted for seasonal variation, for holiday and trading day differences, but not for price changes.

The US Existing Home Sales Index measures US Existing homes sold in a one month period. Total includes single-family homes, townhomes, condominiums and co-ops.

The US New Home Sales Index: As per the U.S. Commerce Departments Bureau of the Census, Median Sales for New One-Family Houses in dollars. As per the U.S. Commerce Departments Bureau of the Census, Average Sales for New One-Family Houses in dollars. Provides these totals broken into regions Northeast, Midwest, South and West.

The S&P/Case-Shiller National U.S. Home Price Index is a quarterly composite of single-family home price indexes for the nine U.S. Census divisions.

The Radar Logix Home Price Index includes 1-, 7- and 28-day measures of actual prices paid for U.S. residential real estate in 25 U.S. Metropolitan Statistical Areas (MSAs) as well as a composite.

The US Dollar Index indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and 6 major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

The US Construction Spending Index measures the value of new construction put in place in the US, adjusted at annual rates.

Consumer Price Index (CPI) is an index number measuring the average price of consumer goods and services purchased by households. The percent change in the CPI is a measure of inflation.

Crude Oil is the world's most actively traded commodity, and the NYMEX Division light, sweet crude oil futures contract is the world's most liquid forum for crude oil trading, as well as the world's largest-volume futures contract trading on a physical commodity.

Gold: Troy ounces of refined gold, not less than .995 fineness, cast either in one bar or in three 1-kg. bars, and bearing a serial number and identifying stamp of a refiner approved and listed by the Exchange.

The CRB Raw Materials Index is a measure of price movements of 22 sensitive basic commodities whose markets are presumed to be among the first to be influenced by changes in economic conditions.

The Port of Long Beach monthly inbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths. The Port of Long Beach monthly outbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths.

The Port of Los Angeles monthly inbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths. The Port of Los Angeles monthly outbound containers: Tracked in TEUs (Twenty foot equivalent units, a standardized maritime industry measurement used when counting cargo containers of varying lengths.

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