

Second Quarter, 2010

Forward Emerging Markets Fund

Sub-Advised by Pictet Asset Management Ltd.

Performance as of June 30, 2010	2Q10	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception*	Gross/Net [†] Expenses
Forward Emerging Markets Fund—Institutional	-9.74%	-8.83%	22.35%	-4.38%	10.74%	11.38%	7.00%	1.54%/1.39%
MSCI Emerging Markets Index	-8.29%	-6.04%	23.48%	-2.22%	13.07%	11.01%	7.84%	

Returns for periods greater than one year are annualized.

*10/04/95

[†]The Fund's investment advisor has contractually agreed to waive a portion of its fees and reimburse other expenses until April 30, 2011, in amounts necessary to limit the Fund's operating expenses (exclusive of brokerage costs, interest, taxes, dividends, acquired fund fees and expenses, and extraordinary expenses) for the Institutional Class shares to an annual rate (as a percentage of the Fund's average daily net assets) of 1.39%.

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. Performance current to the most recent month-end may be obtained at www.forwardfunds.com or by calling (800) 999-6809. The returns assume reinvestment of dividends and distributions, if any.

MARKET REVIEW

Emerging equities had a difficult quarter with the MSCI Emerging Market Index declining 8.4%, the biggest quarterly drop since the fourth quarter of 2008. Risk aversion has come to the fore as debt concerns in the eurozone and the adoption of austerity measures across Europe occurred as signs that Chinese economic activity is slowing and U.S. consumer confidence is faltering. In turn, the traditional top-down drivers of emerging equities turned negative: oil prices fell 9%, the Goldman Sachs Commodities Index dropped 6% and emerging bond yield spreads over U.S. treasuries rose by 86 bps. Despite these headwinds, emerging equities managed to outperform developed markets over the quarter. EMEA (Europe, the Middle East, and Africa) was the worst-performing region over the quarter as anxiety over European debt issues spread to the equity and currency markets of Hungary, Poland and the Czech Republic. Latin America was pulled lower by sharp falls in Brazil, which suffered from falling commodity prices and concerns over Chinese growth, its largest export market. Asia was more resilient, helped by gains in some of the small markets including Indonesia, Malaysia, and the Philippines. The global cyclical sectors of Energy, Materials, and IT underperformed over the quarter, whilst Consumer Staples, Telecoms and Utilities outperformed.

PERFORMANCE ANALYSIS

Fund performance was below the benchmark index over the quarter. In terms of country allocation, there was a positive contribution from the overweight in Indonesia and underweight in Poland, South Africa and Egypt. Offsetting this was the overweight policy in Russia and Brazil and an underweight in Chile. In terms of sector allocation, there was a positive impact from the overweight in Health Care and underweight Industrials and a negative contribution from the underweight in Consumer Staples and Utilities. Stock selection provided negative results over the quarter in China (due to Materials and Technology holdings), Russia (overweight Materials) and in Taiwan (holdings in the Banking and IT sectors). Holdings in Consumer Discretionary companies in Brazil and Mexico and Banking and Property sectors in Indonesia performed well and aided Fund performance over the quarter.

PORTFOLIO ACTIVITY—OVERWEIGHTINGS AND UNDERWEIGHTINGS

Reductions were made to the Fund's exposure to global cyclical companies over the quarter including the Taiwanese-based electronics groups *Epistar* and *Hon Hai* and Russian steel companies *Severstal* and *Evrax* and the Polish copper producer *KGHM*. The holding in *Teva Pharmaceuticals* was also sold down in preparation for Israel being reclassified as a developed market by MSCI at the end of May. Weightings in the Telecom sector were bolstered through purchases in *China Mobile* and *Chunghwa Telecom* in Taiwan, whilst the weighting in Malaysia was moved close to neutral through purchases in the utility group *Tenaga* and the leisure franchise *Genting*. Share price weakness was used to add to holdings in the secular growth

industries of emerging health care (*Mindray Medical* in China) and IT communication software (*Asiainfo Holdings*), whilst holdings in the consumer sector were increased through a purchase of *Want Want*, a Chinese producer of food and beverage products and *TCL Multimedia*, a Chinese-branded TV manufacturer benefitting from new and replacement demand for televisions. Further reinforcing the Fund's exposure to emerging consumer demand, a holding was established in the Chilean retailing franchise *Empresas La Polar*.

MARKET OUTLOOK

The increasing risks to the global economic recovery, coupled with the ongoing tightening of liquidity conditions across many emerging markets, is providing a challenging environment for emerging equity markets to perform. We would expect the current period of volatility to extend over the summer months as growth and inflation data are scrutinized, particularly from China. We are also mindful of the increasing equity supply across emerging markets which, we believe, could exceed USD \$150B in 2010, including significant offerings from *Petrobras* and *Agriculture Bank of China*. The recent correction has brought valuations into more appealing territory, but they cannot yet be considered to be compellingly discounted. Medium-term economic and corporate fundamentals within the emerging markets remain very attractive when placed in the current global environment, however, whilst the outlook of emerging equity earnings growth and return on equity compares well with developed markets. Set-backs over the coming months could provide good opportunities to build positions in emerging markets.

PORTFOLIO STRATEGY

The Fund continues to be driven by our bottom-up investment process, focusing on undervalued investment opportunities with a strong fundamental case for rerating. Indonesia, Brazil, Russia and China are overweight positions, whilst Taiwan, Turkey, Chile, Egypt and Poland are underweight. On a sector basis, we have an underweight policy in Industrials and an overweight position in Financials, Consumer Discretionary and Health Care. As a reminder, current or future portfolio holdings are subject to risk.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The index figures do not reflect any deduction for fees, expenses or taxes.

The S&P GSCI (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. Originally developed by Goldman Sachs, ownership transferred to Standard & Poor's in 2007.

It is not possible to invest directly in an index.

BPS (basis point) is a unit that is equal to 1/100th of 1%, used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

Valuation is the process of determining the value of an asset or company based on earnings and the market value of assets.

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. It should be read carefully before investing.

The Forward Emerging Markets Fund seeks to achieve long-term growth of capital. There is no guarantee that the Fund will achieve its objective.

Forward Funds are distributed by ALPS Distributors, Inc.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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As of June 30, 2010, the Fund held the following positions in the portfolio (These holdings may not reflect the current or future positions in the portfolio. Current or future portfolio holdings are subject to risk. Portfolio holdings are subject to change.):

Forward Emerging Markets Fund
As of 06/30/2010

Security ID	Ticker	Security Name	# of Shares or Principal Amount	Market Price	Market Value	% of Total Net Assets	Currency Code
6771720	005930KS	Samsung Electronics Co., Ltd.	14,352	\$ 627.21	\$ 9,001,779	3.31%	KRW
71654V408	PBR	Petroleo Brasileiro SA, ADR	217,033	34.32	7,448,573	2.74%	USD
B0LMTQ3	939 HK	China Construction Bank Corp.	7,554,000	0.81	6,081,014	2.24%	HKD
921937827	BSV	Vanguard Short-Term Bond ETF	75,025	81.00	6,077,025	2.24%	USD
6073556	941 HK	China Mobile, Ltd.	589,500	9.94	5,858,359	2.16%	HKD
2257127	VALE5 BZ	Companhia Vale do Rio Doce	268,186	21.16	5,675,737	2.09%	BRL
B00G0S5	883 HK	CNOOC, Ltd.	2,677,000	1.70	4,550,030	1.68%	HKD
035128206	AU	AngloGold Ashanti, Ltd., Sponsored ADR	103,726	43.18	4,478,889	1.65%	USD
4560588	LKOH RU	OAO LUKOIL	82,832	52.22	4,325,454	1.59%	USD
B19RPM5	OGXP3 BZ	OGX Petroleo e Gas Participacoes SA	465,026	9.29	4,320,491	1.59%	BRL
6438564	2317 TT	Hon Hai Precision Industry Co., Ltd.	1,228,000	3.51	4,304,350	1.58%	TWD
B16CYP9	RIGD LI	Reliance Industries, Ltd., GDR	91,396	46.27	4,228,866	1.56%	USD
456788108	INFY	Infosys Technologies, Ltd., Sponsored ADR	64,942	59.91	3,890,675	1.43%	USD
6718976	2628 HK	China Life Insurance Co.	870,436	4.37	3,806,616	1.40%	HKD
6693233	005490KS	POSCO	9,152	378.91	3,467,792	1.28%	KRW
5036323	SBERP RU	Sberbank Pfd.	1,724,698	1.95	3,363,161	1.24%	USD
6075745	CIMB MK	CIMB Group Holdings Bhd	1,534,000	2.15	3,302,779	1.22%	MYR
PNINFRA		Infrastructure Development Finance Co., Ltd., (Loan Participation Notes issued by UBS AG - London), expiring 07/13/10	817,117	3.86	3,152,705	1.16%	USD
465562106	ITUB	Itau Unibanco Holding SA, ADR	173,300	18.01	3,121,133	1.15%	USD
6451055	005380KS	Hyundai Motor Co.	26,384	117.01	3,087,159	1.14%	KRW
6563206	MTN SJ	MTN Group, Ltd.	235,262	13.11	3,083,143	1.14%	ZAR
B03MYP5	GARAN TI	Turkiye Garanti Bankasi AS	739,691	4.16	3,078,312	1.13%	TRL
6263830	762 HK	China Unicom, Ltd.	2,068,000	1.34	2,766,088	1.02%	HKD
204448104	BVN	Compania de Minas Buenaventura SA, ADR	70,566	38.44	2,712,557	1.00%	USD
6368360	BBL-R TB	Bangkok Bank Pcl, Non-Voting Depository Receipt	695,200	3.82	2,657,089	0.98%	THB
6651048	BMRI IJ	PT Bank Mandiri Tbk	3,929,500	0.66	2,574,876	0.95%	IDR
B1W0JF2	998 HK	China CITIC Bank	4,068,000	0.63	2,572,585	0.95%	HKD
803866102	SOL SJ	Sasol, Ltd.	71,900	35.53	2,554,296	0.94%	ZAR
B1FY4S9	BISA3 BZ	Brookfield Incorporacoes SA	588,148	4.32	2,541,581	0.94%	BRL
B01VZN9	034220KS	LG Display Co., Ltd.	71,480	32.89	2,350,973	0.87%	KRW
16941R108	SNP	China Petroleum & Chemical Corp., ADR	29,159	80.51	2,347,591	0.86%	USD
856552203	SBID LI	State Bank of India, GDR	23,532	99.33	2,337,518	0.86%	USD
6495042	004940KS	Korea Exchange Bank	229,290	10.19	2,336,818	0.86%	KRW
B282142	3818 HK	China Dongxiang Group Co., Ltd.	3,484,000	0.67	2,322,189	0.86%	HKD
868861204	SGGD LI	Surgutneftegaz OJSC, Sponsored ADR	264,550	8.73	2,308,199	0.85%	USD
B0Y91C1	3323 HK	China National Building Material Co., Ltd.	1,443,675	1.59	2,291,833	0.84%	HKD
2643674	GMEXICOB	Grupo Mexico SAB de CV Series B, B	932,500	2.37	2,213,534	0.82%	MXN
6621580	1303 TT	Nan Ya Plastics Corp.	1,373,560	1.60	2,191,344	0.81%	NTS

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As of 06/30/2010

Security ID	Ticker	Security Name	# of Shares or Principal Amount	Market Price	Market Value	% of Total Net Assets	Currency Code
6287841	2412 TT	Chunghwa Telecom Co., Ltd.	1,100,000	1.98	2,178,076	0.80%	TWD
6904612	TNB MK	Tenaga Nasional Bhd	827,700	2.59	2,144,171	0.79%	MYR
6288190	2409 TT	AU Optronics Corp.	2,412,484	0.89	2,136,109	0.79%	TWD
B2QKYZO	MGNT LI	Magnit OJSC, Sponsored GDR	123,935	17.14	2,124,556	0.78%	USD
6372480	2454 TT	MediaTek, Inc.	152,000	13.96	2,121,582	0.78%	TWD
368287207	OGZD LI	OAO Gazprom, Sponsored ADR	112,267	18.83	2,113,786	0.78%	USD
04518A104	ASIA	AsiaInfo Holdings, Inc.	96,000	21.86	2,098,560	0.77%	USD
6411673	2881 TT	Fubon Financial Holding Co., Ltd.	1,883,000	1.11	2,091,609	0.77%	TWD
6810010	363 HK	Shanghai Industrial Holdings, Ltd.	511,000	3.96	2,022,889	0.75%	HKD
B2Q14Z3	151 HK	Want Want China Holdings, Ltd.	2,391,000	0.84	2,007,059	0.74%	HKD
B59MW61	CNE LN	Cairn Energy PLC	326,688	6.14	2,006,937	0.74%	GBP
6331470	1402 TT	Far Eastern Textile, Ltd.	1,896,000	1.03	1,949,868	0.72%	TWD
B1G4262	KIO SJ	Kumba Iron Ore, Ltd.	46,977	41.34	1,941,835	0.72%	ZAR
2380539	GMODELOC	Grupo Modelo SAB de CV Series C, C	392,044	4.95	1,940,054	0.71%	MXN
B614LY3	CIEL3 BZ	Cielo SA	228,114	8.50	1,938,653	0.71%	BRL
B2QY968	HYPE3 BZ	Hypermarcas SA	150,166	12.83	1,925,952	0.71%	BRL
2421041	GFNORTEO	Grupo Financiero Banorte SAB de CV	505,827	3.79	1,916,448	0.71%	MXN
B5720R0	ECOR3 BZ	Ecorodovias Infraestrutura e Logistica SA	345,460	5.48	1,894,767	0.70%	BRL
6527666	2891 TT	Chinatrust Financial Holding Co., Ltd.	3,448,279	0.55	1,884,145	0.69%	TWD
54318P108	LFT	Longtop Financial Technologies, Ltd., Sponsored ADR	57,498	32.40	1,862,935	0.69%	USD
6224871	017670KS	SK Telecom Co., Ltd.	14,194	131.05	1,860,185	0.68%	KRW
48122U204	SSA LI	Sistema JSFC, Sponsored GDR	79,100	23.29	1,842,437	0.68%	USD
45104G104	IBN	ICICI Bank, Ltd., Sponsored ADR	50,723	36.14	1,833,129	0.67%	USD
6882172	TEVA IT	Teva Pharmaceutical Industries, Ltd.	34,884	52.25	1,822,594	0.67%	ILS
6005850	2353 TT	Acer, Inc.	784,840	2.32	1,821,428	0.67%	TWD
6249584	000210KS	Daelim Industrial Co., Ltd.	35,007	51.51	1,803,372	0.66%	KRW
40429CAA0	40429CAA	HSBC Finance Corp., Sr. Unsec. Notes, 6.750%, 05/15/11	1,700,000	104.12	1,770,059	0.65%	USD
92855S200	VIV	Vivo Participacoes SA, ADR	67,578	25.92	1,751,622	0.64%	USD
6805049	004170KS	Shinsegae Co., Ltd.	4,041	432.07	1,746,011	0.64%	KRW
B2RJPM0	BSDE IJ	PT Bumi Serpong Damai Tbk	22,114,500	0.08	1,743,424	0.64%	IDR
B02ZK79	TLKM IJ	PT Telekomunikasi Indonesia Tbk	2,028,000	0.85	1,718,961	0.63%	IDR
B63DG21	PZU PW	Powszechny Zaklad Ubezpieczen SA	16,548	103.17	1,707,312	0.63%	PLN
602675100	MR	Mindray Medical International, Ltd., ADR	53,902	31.42	1,693,601	0.62%	USD
6446620	009540KS	Hyundai Heavy Industries Co., Ltd.	8,599	190.29	1,636,267	0.60%	KRW
6425663	2882 TT	Cathay Financial Holding Co., Ltd.	1,073,000	1.48	1,587,371	0.58%	TWD
B014K55	NATU3 BZ	Natura Cosméticos SA	71,094	22.16	1,575,490	0.58%	BRL
20441W203	ABV	Companhia de Bebidas das Americas, ADR	15,560	101.01	1,571,716	0.58%	USD
B0B8Z29	3328 HK	Bank of Communications Co., Ltd.	1,484,000	1.05	1,561,831	0.58%	HKD

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3327706	VED LN	Vedanta Resources Plc	49,329	31.42	1,549,880	0.57%	GBP
BOMT4R9	ICA* MM	Empresas ICA SAB de CV	652,470	2.36	1,538,215	0.57%	MXN
6283979	INDF IJ	PT Indofood Sukses Makmur Tbk	3,341,000	0.45	1,513,406	0.56%	IDR
B3DF0Y6	105560KS	KB Financial Group, Inc.	39,430	38.33	1,511,383	0.56%	KRW
06423AAG8	06423AAG	Bank One Corp., Sub. Notes, 7.875%, 08/01/10	1,500,000	100.45	1,506,722	0.55%	USD
6495730	015760KS	Korea Electric Power Corp.	57,620	25.80	1,486,879	0.55%	KRW
6340078	135 HK	Kunlun Energy Co., Ltd.	1,168,000	1.26	1,472,461	0.54%	HKD
88706P106	TSU	Tim Participacoes SA, ADR	52,770	27.14	1,432,178	0.53%	USD
B1JNK84	1898 HK	China Coal Energy Co., Ltd.	1,146,000	1.25	1,431,687	0.53%	HKD
B16YNS1	813 HK	Shimao Property Holdings, Ltd.	915,669	1.55	1,420,510	0.52%	HKD
6196152	267 HK	Citic Pacific, Ltd.	764,000	1.85	1,415,297	0.52%	HKD
B3MZWN0	1938 HK	Chu Kong Petroleum & Natural Gas Steel Pipe Holdings, Ltd.	2,800,000	0.50	1,387,972	0.51%	HKD
6254878	2332 TT	D-Link Corp.	1,818,000	0.76	1,374,566	0.51%	TWD
B1VXJL8	GENT MK	Genting Berhad	627,800	2.19	1,373,248	0.51%	MYR
B232R05	096770KS	SK Energy Co., Ltd.	15,440	88.94	1,373,246	0.51%	KRW
2386009	USIM5 BZ	Usinas Siderurgicas de Minas Gerais SA, Preference, Class A	50,700	26.76	1,356,681	0.50%	BRL
BOLD0W9	EXCL IJ	PT XL Axiata Tbk	3,018,500	0.45	1,349,868	0.50%	IDR
B3BQFC4	ADRO IJ	Adaro Energy Tbk PT	6,112,500	0.22	1,327,661	0.49%	IDR
B23FNB7	ALSC3 BZ	Aliansce Shopping Centers SA	211,100	6.29	1,327,416	0.49%	BRL
6795236	SMGR IJ	PT Semen Gresik Persero Tbk	1,373,812	0.96	1,317,151	0.48%	IDR
2434760	MEXCHEM	Mexichem SA de CV	501,400	2.59	1,298,758	0.48%	MXN
818150302	SVST LI	Severstal, GDR	130,931	9.64	1,261,664	0.46%	USD
6264189	036570KS	NCSoft Corp.	7,638	164.78	1,258,584	0.46%	KRW
B4K19W5	2168 HK	Yingde Gases	1,250,000	0.99	1,239,614	0.46%	HKD
2328595	BBAS3 BZ	Banco do Brasil SA	89,007	13.84	1,232,291	0.45%	BRL
PNTATAIN		Tata Iron & Steel Co., Ltd, (Loan Participation Notes issued by UBS AG - London), expiring 01/11/13	117,566	10.46	1,229,323	0.45%	USD
6568610	069960KS	Hyundai Department Store Co., Ltd.	12,854	95.53	1,227,950	0.45%	KRW
B3B1C73	LABB MM	Genomma Lab Internacional SA de CV, Class B	357,500	3.32	1,187,516	0.44%	MXN
15234Q207	EBR	Centrais Eletricas Brasileiras SA, Sponsored ADR	85,946	13.36	1,148,239	0.42%	USD
465562114	3619210Z	Itau Unibanco Holding SA	63,676	18.01	1,146,805	0.42%	USD
6520739	066570KS	LG Electronics, Inc.	14,786	76.04	1,124,386	0.41%	KRW
71372U104	PWRD	Perfect World Co., Ltd., Sponsored ADR	50,014	22.01	1,100,808	0.41%	USD
91688E206	URKA LI	Uralkali, GDR	61,627	17.80	1,096,837	0.40%	USD
6193788	1070 HK	TCL Multimedia Technology Holdings, Ltd.	2,050,901	0.53	1,093,231	0.40%	HKD
B0PH5N3	489 HK	Dongfeng Motor Group Co. Ltd.	876,000	1.16	1,016,103	0.37%	HKD
30050A202	EVR LI	Evrax Group SA, GDR	43,554	23.32	1,015,810	0.37%	USD
B4JSTL6	1128 HK	Wynn Macau, Ltd.	622,400	1.63	1,014,964	0.37%	HKD
B4X4D29	FLRY3 BZ	Fleury SA	82,173	11.04	906,862	0.33%	BRL

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7320154	OTP HB	OTP Bank Nyrt.	33,044	20.16	666,245	0.25%	HUF
B0WC2B8	2689 HK	Nine Dragons Paper Holdings, Ltd.	234,000	1.35	315,247	0.12%	HKD
B62SYY5	2918 HK	Bank of Communications Co., Ltd. - Rights (expiring 09/07/10)	222,600	0.40	89,190	0.03%	HKD
B23JJK7	VIETRES	Vietnam Resource Investments Holdings, Ltd.	26,000	1.63	42,250	0.02%	USD
05961W105	BMA	Banco Macro SA, ADR	131	29.45	3,858	0.00%	USD
6718255	2333 HK	Great Wall Motor Co., Ltd.	400	1.74	694	0.00%	HKD
B1G1QD8	1398 HK	Industrial & Commercial Bank of China, Ltd.	410	0.73	298	0.00%	HKD
B39Z8W4	691 HK	China Shanshui Cement Group, Ltd.	309	0.44	137	0.00%	HKD
17133M303	CGHD LX	Chunghwa Picture Tubes, Ltd., GDR	23	1.64	38	0.00%	USD
			Number of Contracts	Expiration Date			
Futures - Long							
000LLLM0	LLLLM0	E-Mini MSCI Emerging Markets Index Future Net Cash & Cash Equivalents	306	Sep-10	29,835 11,250,077	0.01% 4.14%	USD