

June 2010

**Forward International Small Companies 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 International Small Companies Fund—Institutional	-11.59%	-7.81%	9.17%	-15.54%	0.84%	1.81%	7.48%	1.29%/1.29%
MSCI EAFE Small Cap Index	-11.19%	-6.91%	12.60%	-12.76%	1.44%	5.41%	3.64%	

Returns for periods greater than one year are annualized.

\*02/07/96

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

**Market Review and Fund Performance**

It has been a difficult quarter for our International Small Companies Fund, with the benchmark falling by 11.2% in U.S. dollar terms. For the most part, this reflects the sharp decline in global equities that occurred in May, when the MSCI EAFE Small Cap benchmark fell by 5.4%. At that time, the impact of the ongoing sovereign debt crisis in Europe appeared to intensify the financial crisis still further. Also, the German authorities' decision to ban naked short-selling on certain financial assets sent a discouraging signal to investors. June initially saw some early recovery as the European Central Bank (ECB) responded to calls for support for the struggling members of the eurozone. However, sentiment remained volatile and markets weakened again towards month end, as the ECB decided to replace its one-year loans with a rolling three-month facility, triggering fears it was withdrawing its financing support too soon, which put pressure on interbank lending rates. The fragile state of investor confidence was further undermined in June when China reported a sharp downward revision in its leading economic indicator index and U.S. consumer confidence recorded a marked drop.

**Performance Analysis**

The Fund slightly underperformed the benchmark over the period. Stocks that contributed positively included: *Aggreko*, the provider of temporary power systems, which reported strong trading and a larger-than-expected contract in South Africa for the World Cup; *Hoshizaki*, in Japan, reported an encouraging set of first quarter results which suggested that demand is recovering in its core commercial kitchen equipment division; also, industrial services company *Aeon Delight* performed well after releasing good final results combined with the acquisition of a rival service company which has the potential to be significantly earnings enhancing; and finally, *N Brown*, retailer of ladies garments, was also strong as results showed both margins rising and bad debts falling in the second half of last year.

Stocks that dragged on performance included: Swedish clothing retailer, *Kappahl*, where poor weather conditions in early summer led to weak apparel sales in Scandinavia; in Asia, *TCL* suffered as the result of weaker-than-expected sales of LCD TV's; while mineral exploration company *AWE* was weak after a disappointing project finding, and also weak crude oil prices.

**Portfolio Activity: Overweightings and Underweightings**

The quarter was quite active, with twenty positions sold and fifteen added, for a net decrease of five stocks. Amongst the largest new positions was *Pirelli*, which continues to beat expectations due to both strong volumes and pricing, especially in Brazil. It has also spun off real estate which is value enhancing and should reduce the holding-company discount on which the group trades. We also added *International Personal Finance*, a consumer lender which is benefitting from start-ups moving

into profit, while core European markets also return to growth. Sells included *Hochtief*, where we fear less public construction work in coming years and more price competition for remaining projects. We also disposed of *London Stock Exchange*, where market share remains under pressure, and concerns exist as to how quickly its new systems can be introduced. In terms of sectors, we have reduced Financials, increasing both Consumer Discretionary and Consumer Staples. In terms of our G4 categorization, we have increased established growth at the expense of cyclical growth companies.

#### **Market Outlook**

The market's set back reflects investors' refocused attention on macro-economic challenges and away from the strong corporate earnings reports. The recovery in global profitability has been impressive, reflecting aggressive cost-cutting and labor force reductions together with a recovery in demand, particularly within emerging markets. Although we think equity valuations look like a bargain and bond markets remain generally stable, investor sentiment has been undermined by deterioration in liquidity. The gradual withdrawal of quantitative easing and direct purchasing of assets by central banks is not as of yet being replaced by an increase in private sector activity. Although fiscal austerity has gained political traction within Europe, most recently with an emergency budget from the new U.K. coalition government, the U.S. has yet to pay little more than lip service to the need to rein in spending. This marks a divergence in post-crisis policy approach, with the U.S. Treasury Secretary Tim Geithner calling upon Japan and those European countries with trade surpluses to boost domestic demand, while European leaders suggest that fiscal restraint provides the best prescription to ensure a return to self-sustaining growth. In Japan, the new Prime Minister, Naoto Kan, faces a massive challenge in reducing a debt ratio equivalent to some 200% of gross domestic product. In the near term, confidence in an extended period of low interest rates remains a crucial underpinning for both corporate and consumer activity. Longer term, whether a rebalancing of global trade and consumption activity can be achieved is likely to be a key determinant of overall economic and financial market stability.

#### **Strategy**

We remain focused on our bottom-up investment process, with an emphasis on stocks that offer identifiable triggers-for-performance, liquidity and earnings growth visibility at attractive valuation levels. As a reminder, current or future portfolio holdings are subject to risk.

The MSCI EAFE Small Cap Index is an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada. The index figures do not reflect any deduction for fees, expenses, or taxes. It is not possible to invest directly in an index.

Sovereign debt is the total amount owed to the holders of the sovereign bonds (bonds issued by a national government).

Naked short selling is the practice of selling a stock short, without first borrowing the shares or ensuring that the shares can be borrowed as is done in a conventional short sale.

The European Central Bank (ECB) is one of the world's most important central banks, responsible for monetary policy covering the fifteen member countries of the euro zone. The ECB, established by the European Union (EU) in 1998, is headquartered in Frankfurt, Germany.

G4 categorization refers to Pictet Asset Management's (the sub-advisor to the Forward International Small Companies Fund) proprietary analytical framework.

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

Quantitative easing refers to a form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero.

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.

**Investing in foreign securities, especially emerging markets, will involve certain additional risks, including exchange rate fluctuation, political and social instability, less liquidity, greater volatility and less regulation. Small company stocks are generally riskier than large company stocks due to greater volatility and less liquidity.**

*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.*

The Forward International Small Companies Fund seeks to achieve long-term growth of capital. There is no guarantee 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 International Small Companies Fund

As of 06/30/2010

Security ID	Ticker	Security Name	# of Shares	Market Price	Market Value	% of Total Net Assets	Currency Code
7113990	CLN VX	Clariant AG	431,548	\$ 12.66	\$ 5,464,406	1.21%	CHF
0147899	AGK LN	Aggreko Plc	249,634	20.99	5,240,486	1.16%	GBP
0575809	MGGT LN	Meggitt Plc	1,123,493	4.66	5,235,246	1.16%	GBP
B119QG0	PGHN SW	Partners Group Holding AG	42,250	120.66	5,097,827	1.13%	CHF
6817895	9989 JP	Sundrug Co., Ltd.	200,600	24.26	4,866,477	1.08%	JPY
6906919	4540 JP	Tsumura & Co.	156,100	30.62	4,779,512	1.06%	JPY
0331841	PFL LN	Premier Farnell Plc	1,447,803	3.27	4,737,320	1.05%	GBP
B079W58	MCRO LN	Micro Focus International Plc	753,392	6.28	4,734,224	1.05%	GBP
6185622	CEY AU	Centennial Coal Co., Ltd.	1,272,160	3.69	4,700,032	1.04%	AUD
4689803	PC IM	Pirelli & C. SpA	8,484,024	0.55	4,671,733	1.03%	EUR
6357562	5801 JP	Furukawa Electric Co., Ltd.	1,069,881	4.36	4,667,757	1.03%	JPY
3356001	PMO LN	Premier Oil Plc	251,598	18.46	4,645,184	1.03%	GBP
B3WJHK4	INF LN	Informa Plc	862,241	5.28	4,555,462	1.01%	GBP
6927374	VMS SP	Venture Corp., Ltd.	713,900	6.35	4,530,635	1.00%	SGD
B010DT8	CCR LN	C&C Group Plc	1,145,084	3.95	4,522,449	1.00%	EUR
4354350	FPE3 GR	Fuchs Petrolub AG	51,121	88.33	4,515,540	1.00%	EUR
6642804	8036 JP	Hitachi High-Technologies Corp.	245,700	18.37	4,513,729	1.00%	JPY
5468324	EVA SM	Ebro Puleva SA	260,459	16.90	4,401,074	0.97%	EUR
0330860	SXS LN	Spectris Plc	380,988	11.52	4,387,197	0.97%	GBP
6429201	5486 JP	Hitachi Metals, Ltd.	431,812	10.12	4,371,678	0.97%	JPY
6476218	9787 JP	Aeon Delight Co., Ltd.	223,431	19.47	4,349,089	0.96%	JPY
B1VYK30	MEDAA SS	Meda AB, Class A	598,847	7.25	4,340,720	0.96%	SEK
5499238	PFV GR	Pfeiffer Vacuum Technology AG	58,238	73.04	4,253,925	0.94%	EUR
6894898	4186 JP	Tokyo Ohka Kogyo Co., Ltd.	252,300	16.85	4,251,781	0.94%	JPY
B06QFB7	IGG LN	IG Group Holdings Plc	680,535	6.25	4,251,691	0.94%	GBP
4557104	G1A GR	GEA Group AG	210,036	19.92	4,184,154	0.92%	EUR
5942282	SIM DC	SimCorp AS	26,196	159.27	4,172,202	0.92%	DKK
6149457	4967 JP	Kobayashi Pharmaceutical Co., Ltd.	98,010	42.51	4,166,063	0.92%	JPY
6897295	1983 JP	Toshiba Plant Systems & Services Corp.	331,949	12.48	4,143,829	0.92%	JPY
6269861	7532 JP	Don Quijote Co., Ltd.	153,359	26.81	4,111,764	0.91%	JPY
5666292	TUI1 GR	TUI AG	460,681	8.81	4,057,154	0.90%	EUR
3169889	WMH LN	William Hill Plc	1,589,660	2.54	4,044,097	0.89%	GBP
6491318	148 HK	Kingboard Chemical Holdings, Ltd.	934,800	4.29	4,013,485	0.89%	HKD
0945736	DMGT LN	Daily Mail & General Trust Plc	613,380	6.51	3,992,423	0.88%	GBP
5799949	CSM NA	CSM NV	133,371	29.70	3,960,911	0.88%	EUR
6470986	4185 JP	JSR Corp.	232,900	16.80	3,912,201	0.86%	JPY
4818351	SGL GR	SGL Carbon SE	134,100	28.87	3,871,314	0.86%	EUR
6467074	FXJ AU	Fairfax Media, Ltd.	3,520,160	1.09	3,846,101	0.85%	AUD

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6869131	6481 JP	THK Co., Ltd.	185,304	20.69	3,833,758	0.85%	JPY
B14NJ71	AMP IM	Amplifon SpA	820,862	4.60	3,778,780	0.84%	EUR
B3N2CQ3	MDCA FP	Medica SA	207,922	18.17	3,777,002	0.83%	EUR
7399369	VIRP FP	Virbac SA	35,300	106.45	3,757,661	0.83%	EUR
6718211	8959 JP	Nomura Real Estate Office Fund, Inc.	752	4,978.32	3,743,697	0.83%	JPY
B3ZC078	2270 JP	Megmilk Snow Brand Co., Ltd.	207,894	17.96	3,733,396	0.82%	JPY
4808084	SIK SW	Sika AG	2,085	1,772.65	3,695,980	0.82%	CHF
0834704	SPX LN	Spirax-Sarco Engineering Plc	181,000	20.37	3,687,689	0.81%	GBP
6190648	8544 JP	The Keiyo Bank, Ltd.	705,800	5.22	3,683,216	0.81%	JPY
B1JB4K8	SY1 GR	Symrise AG	177,963	20.63	3,671,270	0.81%	EUR
B23DKN2	MRO LN	Melrose Plc	1,169,934	3.12	3,648,243	0.81%	GBP
5827431	BEKB BB	Bekaert NV	21,787	166.72	3,632,247	0.80%	EUR
6603737	CD SP	ComfortDelGro Corp., Ltd.	3,466,200	1.04	3,594,514	0.79%	SGD
7147892	TEMN SW	Temenos Group AG	149,156	24.07	3,590,787	0.79%	CHF
6858731	6302 JP	Sumitomo Heavy Industries, Ltd.	610,571	5.87	3,582,552	0.79%	JPY
6497082	6473 JP	JTEKT Corp.	387,143	9.25	3,580,366	0.79%	JPY
6986041	6506 JP	Yaskawa Electric Corp.	482,485	7.42	3,579,234	0.79%	JPY
B3FF8W8	6465 JP	Hoshizaki Electric Co., Ltd.	202,707	17.38	3,522,268	0.78%	JPY
6642428	7240 JP	NOK Corp.	221,420	15.88	3,516,112	0.78%	JPY
4580586	IND IM	Indesit Co., SpA	312,284	11.22	3,504,526	0.77%	EUR
B1DGKS9	8418 JP	Yamaguchi Financial Group, Inc.	366,327	9.56	3,501,011	0.77%	JPY
6468152	8273 JP	Izumi Co., Ltd.	259,700	13.41	3,482,919	0.77%	JPY
7416763	KBC GR	Kontron AG	389,293	8.92	3,473,913	0.77%	EUR
0759476	RPS LN	RPS Group Plc	1,239,700	2.78	3,449,970	0.76%	GBP
B0LKSK4	TNET BB	Telenet Group Holding NV	131,251	26.24	3,443,493	0.76%	EUR
6164472	GGR SP	Golden Agri-Resources, Ltd.	9,118,190	0.37	3,417,774	0.76%	SGD
B012TP2	HFD LN	Halfords Group Plc	468,551	7.28	3,410,488	0.75%	GBP
0472609	SPT LN	Spirent Communications Plc	2,073,882	1.63	3,378,696	0.75%	GBP
B0RJCG9	425 HK	Minth Group, Ltd.	2,824,100	1.18	3,336,775	0.74%	HKD
4155586	DCO DC	Danisco AS	49,457	67.29	3,328,069	0.74%	DKK
B3CX450	CHTR LN	Charter International Plc	355,492	9.35	3,325,521	0.74%	GBP
B0V2C19	BULL FP	Bull SA	1,011,242	3.29	3,323,981	0.73%	EUR
B1FW502	HOC LN	Hochschild Mining Plc	728,050	4.56	3,322,836	0.73%	GBP
6704351	210 HK	Daphne International Holdings, Ltd.	3,252,168	1.01	3,293,473	0.73%	HKD
5298781	BB FP	Societe BIC SA	46,340	71.02	3,291,168	0.73%	EUR
5993901	MMT FP	Metropole Television SA	162,684	20.22	3,289,628	0.73%	EUR
5763201	VCT FP	SA des Ciments Vicat	48,697	67.17	3,270,957	0.72%	EUR
6371863	2702 JP	McDonald's Holdings Co., Ltd.	145,870	22.39	3,266,329	0.72%	JPY

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B16FTB9	TRE SM	Tecnicas Reunidas SA	71,615	45.48	3,256,873	0.72%	EUR
B08BR25	CPR IM	Davide Campari-Milano SpA	661,520	4.91	3,246,363	0.72%	EUR
6179573	903 HK	TPV Technology, Ltd.	5,367,200	0.59	3,184,106	0.70%	HKD
4717629	RHK GR	Rhoen-Klinikum AG	143,488	22.16	3,179,157	0.70%	EUR
B0Z5YZ2	AKE FP	Arkema	90,752	34.80	3,158,519	0.70%	EUR
5980958	HAV FP	Havas SA	714,638	4.40	3,143,757	0.69%	EUR
B011JK4	GTO FP	Gemalto NV	83,276	37.63	3,133,991	0.69%	EUR
6714974	3433 JP	Tocalo Co., Ltd.	172,700	18.06	3,119,157	0.69%	JPY
B01WT63	DUE AU	DUET Group	2,293,847	1.35	3,099,397	0.69%	AUD
5523881	KRN GR	Krones AG	61,772	49.99	3,087,898	0.68%	EUR
6527031	856 HK	VST Holdings, Ltd.	9,534,000	0.32	3,034,341	0.67%	HKD
B1YKG04	IPF LN	International Personal Finance Plc	1,067,600	2.83	3,019,683	0.67%	GBP
7744709	SRN IM	Sorin SpA	1,713,124	1.76	3,012,254	0.67%	EUR
B1Y9JH9	RHA FP	Rhodia SA	180,745	16.57	2,994,705	0.66%	EUR
7084892	APR FP	April Group	122,469	24.36	2,982,816	0.66%	EUR
5588169	BIJ GR	Bijou Brigitte Modische Accessoires AG	20,376	146.07	2,976,317	0.66%	EUR
5165294	ASM NA	ASM International NV	151,970	19.57	2,974,394	0.66%	EUR
5183359	NUO NA	Nutreco Holding NV	55,216	53.70	2,964,970	0.65%	EUR
4247494	DIE BB	SA D'Ieteren NV	6,931	424.15	2,939,750	0.65%	EUR
B1WP656	DNORD DC	D/S Norden AS	84,800	34.47	2,922,921	0.65%	DKK
3325205	DNX LN	Dana Petroleum Plc	172,500	16.83	2,903,866	0.64%	GBP
6986461	5101 JP	The Yokohama Rubber Co., Ltd.	642,443	4.51	2,895,167	0.64%	JPY
6172453	8060 JP	Canon Marketing Japan, Inc.	200,300	14.07	2,819,071	0.62%	JPY
6309262	9684 JP	Square Enix Holdings Co., Ltd.	153,000	18.42	2,818,237	0.62%	JPY
B15SLC4	TGS NO	TGS NOPEC Geophysical Co., ASA	243,173	11.53	2,804,601	0.62%	NOK
6594604	8155 JP	Mimasu Semiconductor Industry Co., Ltd.	240,300	11.66	2,802,535	0.62%	JPY
B09RG69	PLT IM	Parmalat SpA	1,205,451	2.32	2,801,801	0.62%	EUR
B1P6ZR1	BWNG LN	N. Brown Group Plc	750,493	3.72	2,791,726	0.62%	GBP
6728555	904 HK	China Green Holdings, Ltd.	2,762,277	1.00	2,771,571	0.61%	HKD
B01RQM3	2343 HK	Pacific Basin Shipping, Ltd.	4,423,496	0.62	2,737,411	0.61%	HKD
6341606	FBU NZ	Fletcher Building, Ltd.	510,300	5.35	2,730,777	0.60%	NZD
0447889	HTG LN	Hunting Plc	398,371	6.64	2,646,879	0.59%	GBP
6011200	7238 JP	Akebono Brake Industry Co., Ltd.	575,700	4.56	2,626,834	0.58%	JPY
5999330	RCF FP	Teleperformance SA	105,149	24.98	2,626,539	0.58%	EUR
6249799	440 HK	Dah Sing Financial Holdings, Ltd.	458,000	5.69	2,604,017	0.58%	HKD
B1CKQ73	DNLM LN	Dunelm Group Plc	523,109	4.89	2,558,803	0.57%	GBP
0667278	PIC LN	Pace Plc	1,061,609	2.40	2,551,319	0.56%	GBP
6049784	8572 JP	Acom Co., Ltd.	189,850	12.92	2,453,237	0.54%	JPY

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0766937	STJ LN	St. James's Place Capital Plc	743,152	3.15	2,343,155	0.52%	GBP
4253372	DANR IM	Danieli & C. Officine Meccaniche SpA	226,811	10.22	2,318,422	0.51%	EUR
6463016	9742 JP	INES Corp.	341,679	6.71	2,293,030	0.51%	JPY
6193788	1070 HK	TCL Multimedia Technology Holdings, Ltd.	4,133,400	0.53	2,203,305	0.49%	HKD
4714750	KUNN SW	Kuoni Reisen Holding AG	7,850	280.19	2,199,471	0.49%	CHF
5689051	AGFB BB	Agfa-Gevaert NV	381,743	5.72	2,184,323	0.48%	EUR
0003128	ADN LN	Aberdeen Asset Management Plc	1,107,453	1.91	2,120,095	0.47%	GBP
B096LW7	FUR NA	Fugro NV	44,407	46.20	2,051,494	0.45%	EUR
6003843	AWE AU	Australian Worldwide Exploration, Ltd.	1,328,174	1.47	1,954,920	0.43%	AUD
7128563	BEN IM	Benetton Group SpA	293,034	6.67	1,954,659	0.43%	EUR
6432715	1379 JP	Hokuto Corp.	99,022	19.73	1,953,652	0.43%	JPY
B234SL9	EN IM	Enia SpA	297,505	6.28	1,867,592	0.41%	EUR
B0YWGH0	KAHL SS	Kappahl Holding AB	243,232	6.12	1,488,995	0.33%	SEK
B1FP891	BBA LN	BBA Aviation Plc	448,109	2.72	1,219,730	0.27%	GBP
4783211	IRD IM	Iride SpA	675,580	1.49	1,009,041	0.22%	EUR
		Net Cash & Cash Equivalents			10,558,957	2.33%	