

REIT Preferred Securities Potential Default Risk

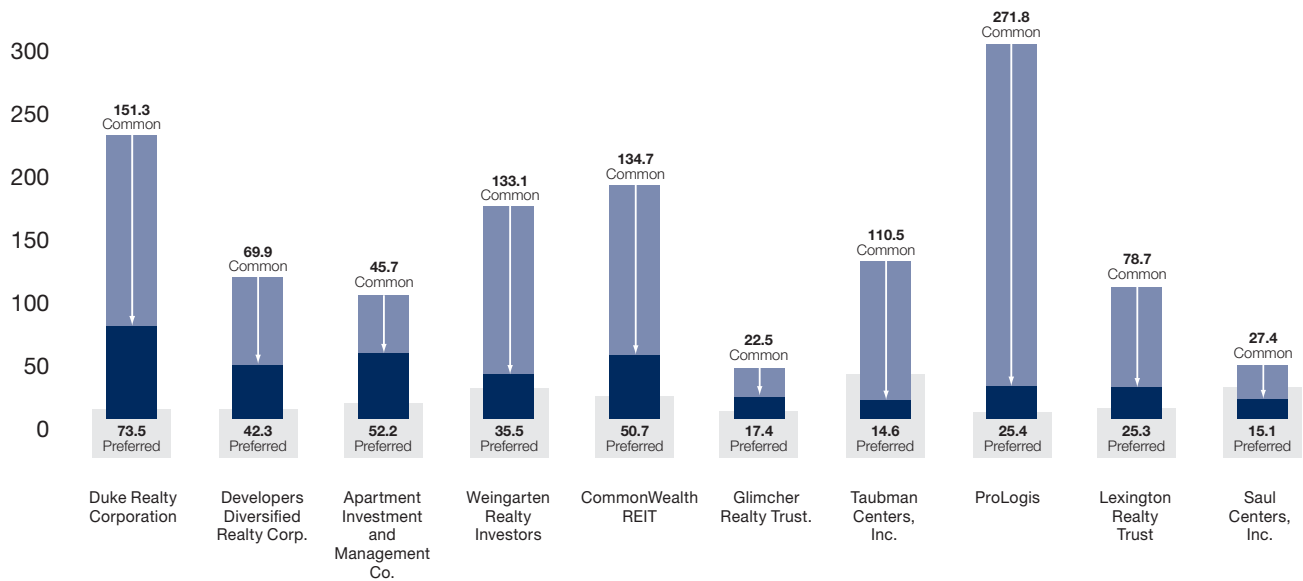
What is the potential risk of default to REIT preferred shareholders?

In our view, the cash dividends generated by REIT preferred shares offer a degree of insulation as compared to the common equity issued by the same company, due to their priority claim on cash distributions—common dividends would first have to be eliminated before the preferred dividend could be omitted.

In the case of the REITs listed below, each company paid out common dividends of between \$22 million and \$272 million in 2009. Although some common dividends have been reduced or suspended for 2010, we see the substantial levels of common dividends as meaningful insulation against the future prospect of potential preferred dividend omissions.

Forward Select Income Fund Top 10 Issuers as of 6/30/10

Preferred and Common Dividends Paid for Calendar Year 2009¹ (in millions)



Source: Forward Management, LLC.

We continue to feel positive about the prospects for the vast majority of our underlying companies' ability to pay their dividends. We believe that the previously limited long term default rate for REIT preferred stocks will likely rise in response to the recessionary environment and the financial crisis. However, due to the securities' priority claim on cash dividends, and the cumulative nature of real estate preferred shares—meaning that the issuer must accrue any missed dividend as a liability and eventually pay it—at this time, we do not believe REIT preferred defaults will be a widespread problem.

Learn more today at www.forwardfunds.com or call (888) 312-4100.

¹ Source: Dividend payout information sourced from each company's 2009 10-K filing with the exception of Corporate Office Properties Trust, whose dividend information was sourced from its Supplemental Information Package.

You should consider the investment objectives, risks, charges and expenses carefully before investing. A prospectus with this and other information about the funds may be obtained by calling (888) 312-4100 or by downloading one from www.forwardfunds.com. It should be read carefully before investing.

The Fund will invest in lower-rated debt securities and may utilize derivatives for hedging purposes. The Fund's use of short selling involves additional risks and transaction costs, and creates leverage, which can increase the volatility of the Fund. The Fund may invest a larger percentage of its assets in the securities of a smaller number of issuers, since it is a "non-diversified" mutual fund.

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