3Q-2016

Salient Perspectives

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The House View

Preparation and an Uncertain World

Lee Partridge
Chief Investment Officer

The market's performance since the financial crisis of 2008 has perplexed many investors as unprecedented central bank stimulus, rising debt and declining growth rates coincided with falling interest rates, low credit spreads, falling commodity prices and rising equity markets. Moreover, many diversified investors have been frustrated by the leadership of U.S. large cap stocks vis-à-vis other geographic regions and asset classes that lagged on a relative basis. For the seven year period ending June 30, 2016, the S&P 500 Index generated a 164.39% total return while the rest of the developed world, as measured by the MSCI World ex USA Index generated a 54.23% total return and emerging markets, as measured by the MSCI Emerging Market Index, generated a 32.68% return over that same time period. We take to heart the phrase that "past performance is no guarantee of future results." As we look to the second half of the decade we recognize that we are starting with historically low interest rates, low commodity prices and relatively low valuations for emerging market equities.

Last year ended with investors' lingering fear that the Federal Reserve (Fed) left the monetary party before the real fun got started. During the period when the Fed began tapering then ultimately ended the third phase of their quantitative easing program in 2014, the U.S. Trade Weighted Broad Dollar Index (USTWBROA)[1] appreciated 24.14% from July 1, 2014 through January 20, 2016 while commodities, as measured by the S&P GSCI Total Return Index, and emerging market equities, as measured by the MSCI Emerging Market Index, retreated -58.67% and -31.23%, respectively. Since that period, the USTWBROA declined -3.69% through the end of the second quarter of 2016, as commodities and emerging market equities advanced 28.16% and 22.08%, respectively.

The foregoing information is intended to highlight the fact that markets can be influenced by outside factors—like monetary policy—and that the responses of various markets to those variables may either complement or conflict with one another. Accordingly, we believe that many investors will be well served by diversifying their portfolios across geographies and investment themes. The first half of the decade was characterized by deflationary forces and U.S. profits. We wonder whether the second half of the decade could be characterized by reflationary themes and the resumption of growth outside the U.S.

In a world of reflation, we believe emerging market equities and real assets will likely outperform developed market equities and higher quality fixed income securities. The quandary is determining whether the second half of the decade will be characterized by the theme of reflation or the continuation of deflationary forces resulting from the high levels of global debt and aging populations. With this tension in mind, we believe that investors should focus on non-U.S. equity markets (with a particular emphasis on emerging markets) and commodity reflation. Despite the relative attractiveness of those investment themes for the second half of the decade, we believe that investors should concentrate on risk mitigation through adaptability and tactical positioning in the face of secular headwinds and uncertain policy responses.

Adaptability requires investors to think in terms of risk factors rather than asset classes. Asset class exposures are adjusted as various risk factors become more visible. Tactical positioning allows investors to anticipate those themes and position for rising and falling markets by using long and short positions that can adjust the level of defensiveness of a portfolio while isolating and extracting relative value themes across portfolio positions.

1. Source: Bloomberg, L.P., as of 06/30/16. For illustrative purposes only.

Epsilon Theory

Policy-Driven Markets and Actively Managed Funds

Ben Hunt
Chief Risk Officer

In 2012 Ben Bernanke famously said, "It is probably not a coincidence that the sustained recovery in U.S. equity prices began in March 2009, shortly after the Federal Open Market Committee's decision to greatly expand securities purchases." Probably not a coincidence, indeed.

Over the past seven years, the S&P 500 Index has more than doubled from the March 2009 bottom, while the Deutsche Bank Equity Sector Neutral Quality Index (a market neutral factor index that goes long global stocks with high return on equity and goes short stocks with low return on equity) is up a meager 5%. That's effectively the reverse of the prior nine years, where a quality index handily outperformed the S&P 500.

The Federal Reserve (Fed) couldn't care less about promoting high quality companies and dissing low quality companies. No, the Fed wants to promote ALL financial assets, and it's precisely the companies with sketchy quality attributes that are more likely to be bailed out by the tsunami of liquidity and the most accommodating monetary policy of the past 80 years.

As a result, the vast majority of actively managed U.S. equity funds—which are almost all focused on quality—have failed to beat their benchmarks throughout this policy-driven market, and many investors' assets have fled these funds in favor of passively managed ETFs and indices.

There is a role for actively managed stock-picking strategies in a policy-driven market, but it's not to "beat" the market. It's to survive a puppeted market by getting as close to a real fractional ownership of real assets and real cash flows as possible.

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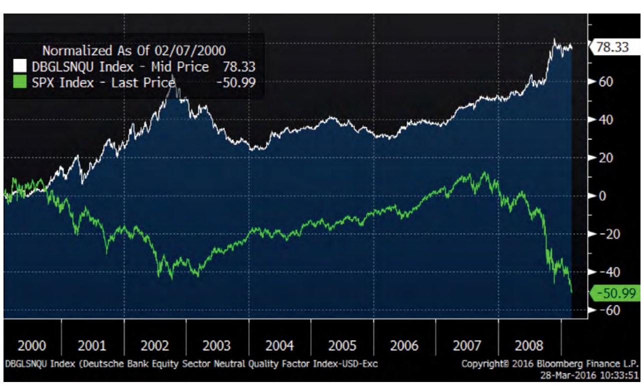
When the casino game of policy-driven markets breaks, nothing will be immune. But the only "margin of safety" against political risk is getting as close as you can to ownership of quality assets and their quality cash flows. You won't get that through passive indices and ETFs, but only through a like-minded active manager.

FIGURE 1

Quality Dominates Pre-March 2009



Quality Useless Post-March 2009

Source: Bloomberg, L.P., as of 06/30/16. For illustrative purposes only. Past performance does not guarantee future results.

Quarterly Strategy Highlight

Salient's Expanded Tactical Platform

Jeremy Radcliffe
President and Chief Strategy Officer

I was instantly transported back to the days of the housing collapse after watching *The Big Short* on a recent flight. I'm normally a "book guy," but the production replicated the unforgettable sights and sounds of the Global Financial Crisis better than I could have imagined. There's also a personal connection: I co-founded Salient six years earlier and we were familiar with Baum and FrontPoint's strategies. In fact, we established similar downside protection in certain of our portfolios. In the eight years since the depths of the crisis, we have explored other "asymmetric" trades, but the intervention of central banks, wariness of investment banks and the resultant explosion of debt has nullified their effectiveness.

Tactical solutions can offer compelling downside protection to a portfolio without long periods of capital lock up and, in some cases, high fees that erode returns. The "tactical" label is reflective of a portfolio manager's desire and ability to appropriately position the portfolio—either long or short—given potential near-term catalysts or market action. Trading and investing on a tactical basis are challenging investment strategies to pursue as an investor, but we consider them vital to protect equity-based portfolios.

I highlighted some of Salient's tactical capabilities in a recent piece I wrote called the "The Three T's of Protecting Equity-Based Portfolios." Additionally, a number of institutional investors have recognized the need to thoughtfully balance equity exposure with a similar focus on truly diversifying strategies. CalSTRS, among other public plans, made headlines when they announced a 9% allocation to a new risk mitigating strategies portfolio, designed to reduce the impact of another economic downturn. From the April 18, 2016 issue of *Pensions & Investments*:

> "It's the recognition that if you want to reduce the drawdown in your negative years you are not going to be able to receive the top-side extreme maximums", said CalSTRS chief investment officer Christopher Ailman. "What we're trying to do with RMS [risk mitigating strategies portfolio] is dampen the entire volatility. What happens is, when you lose less money in negative markets, and the market begins to rebound, you're rebounding with a bigger pool of capital."
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> Pension Consulting Alliance managing director Neil Rue said bundling alternative strategies as part of a risk-offset strategy offers a dynamic approach, but one that plan executives have to manage proactively. "All the individual components can be quite volatile," Mr. Rue said. "It's not like buying an index fund and putting it on autopilot."

I invite you to take a hard look at our revamped lineup of tactical funds that includes:

- Salient Tactical Growth Fund and Tactical Plus Fund: Built on the key tenets of Wall Street legend Marty Zweig and using the charts and research from Ned Davis, Chris Guptill oversees one of the only long-short equity strategies focused on what really drives performance in this space: net equity exposure.
- Salient Tactical Muni & Credit Fund: We've partnered with PIMCO to deliver one of the most interesting muni funds in the market. The investment team has wide latitude to position the portfolio to maximize total return, generate tax-efficient income and manage downside risk. The ability to hold investments across the credit spectrum provides the opportunity to exploit dislocations in the municipal and credit markets.
- Salient Trend Fund: Allocating capital to trend-following strategies can potentially diversify a portfolio while maintaining equity exposure. These strategies are just as likely to hold long or short positions and therefore seeks to profit in both up and down markets.
- Salient Tactical Real Estate Fund: The large number of key sub-sectors within the real estate or property asset class, including office, hospitality, industrial and storage make it fertile ground for an active, long-short approach.

For further information on our tactical solutions or other Salient strategies, please contact our sales desk at 800-994-0755.

Who is Salient?

Unique perspectives. Uncommon insight.

John Blaisdell
Chief Executive Officer

Salient is a diversified asset management firm and leading provider of alternative and real asset investment strategies for institutional investors and investment advisors. Founded in 2002, we offer a comprehensive suite of strategies that span master limited partnerships (MLPs), real estate, public and private equity, fixed income, credit and managed futures. These strategies are designed to serve as powerful building blocks for smarter, more efficient portfolios.

Salient's mission is to provide our clients with clearly defined and explained investment solutions that help enable them to diversify away from the core risk factors that dominate conventional portfolios. This quarter, we focus on the importance of tactical allocation strategies in an investment portfolio. Now more than ever, recent market volatility has heightened investor interest in protecting against equity losses. We believe that our tactical platform has both the track record and impressive management pedigree to complement equity exposure and, most importantly, protect on the downside.

Powerful bulding blocks for smarter, more efficient portfolios.

Energy & MLPs

Houston-based Greg Reid and Ted Gardner manage Salient's MLP strategies, which are designed to provide the opportunity to potentially capture attractive total returns driven by a combination of distribution yield plus prospective distribution growth.

Quantitative

Led by Dr. Roberto Croce and Nathan Rowader, the team implements a disciplined, systematic approach towards allocating risk exposure in portfolio construction. The quantitative strategies adaptively target volatility to diversify away from typical equity risk.

Credit

Fixed Income veterans David Hinman and James Sivco focus on high yield and emerging market corporate debt markets through diversifying and income-producing strategies.

Real Estate

With over two decades of experience, Joel Beam oversees a suite of real estate strategies designed to offer access to different areas of the real estate investment trust market while also providing income, diversification and hedging capabilities.

Equity Dividend Signal

David Ruff, Randall Coleman, Bruce Brewington, Eric Sagmeister and Aaron Visse comprise the equity team. Their unique approach seeks attractive yield and uncovers growth potential around the globe.

Tactical Equity

Broadmark Asset Management's Christopher Guptill and Ricardo Cortez sub-advise highly-adaptive long-short equity strategies that aim to lower the impact of equity volatility and preserve capital during down markets.

You should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. The prospectus contains this and other information and is available, along with information about the series of funds under the Forward Funds Trust ("Salient Funds"), by downloading one from www.salientfunds.com or calling (800) 999-6809. The prospectus should be read carefully before investing.

Salient Tactical Growth Fund seeks to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the S&P 500 Index.

Salient Tactical Muni & Credit Fund seeks to maximize total return (capital appreciation and income).

Salient Tactical Plus Fund seeks to produce, in any market environment, above-average risk-adjusted returns and less downside volatility than the S&P 500 Index.

Salient Tactical Real Estate Fund seeks total return through a combination of high current income relative to equity investment alternatives, plus long-term growth of capital.

Salient Trend Fund seeks long-term capital appreciation with low correlation to traditional core equity and bond market exposures.

Definition of Terms

Deutsche Bank Equity Sector Neutral Quality Index is a market neutral factor index that goes long global stocks with high return on equity and goes short stocks with low return on equity

Monetary policy refers to the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, including an increase in interest rates or changing the amount of money banks need to keep in bank reserves.

MSCI Emerging Market (EM) Index is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets.

MSCI World ex USA Index is a free-float weighted equity index created by Morgan Stanley Capital International (MSCI) that is designed to measure market performance in developed world markets excluding the USA.

S&P 500 Index is an unmanaged, capitalization weighted index comprising publicly traded common stocks issued by companies in various industries. The S&P 500 Index is widely recognized as the leading broad-based measurement of changes in conditions of the U.S. equities market.

S&P GSCI Total Return Index is a composite index of commodity sector returns representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities and serves as a measure of commodity performance over time.

U.S. Trade Weighted Broad Dollar Index is a measure of the value of the United States dollar relative to other world currencies. An effective exchange rate (also known as a trade-weighted exchange rate) is a weighted average of the individual exchange rates of a particular country with its main trading partners.

Disclosures

The opinions expressed in these materials represent the current, good faith views of the investment professionals of Salient, and are based on their broad investment knowledge, experience, research and analysis. The information herein has been developed internally and/or obtained from sources believed to be reliable; however, Salient does not guarantee the accuracy, adequacy or completeness of such information.

Market conditions, strategic approaches, return projections and other key factors upon which the views presented in these materials are based remain subject to fluctuation and change. Consequently, it should be noted that no one can accurately predict the future of the market with certainty or guarantee future investment performance.

This presentation contains projections or other "forward-looking statements." Forward-looking statements can be identified by the words "may," "will," "intend," "expect," "estimate," "continue," "plan," "anticipate," "could," "should," and similar terms and the negative of such terms. By their nature, forward looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by forward-looking statements. Several factors that could materially affect actual results are the performance of the portfolio securities, the conditions in the U.S. and international financial markets and other markets and factors.

No investment strategy can guarantee performance results. Past performance is no guarantee of future results. All investments are subject to investment risk, including loss of principal invested.

One cannot invest directly in an index.

This presentation does not constitute an offering of any security, product, service or fund for which an offer can be made only by the Fund's Prospectus.

The series of funds under the Salient MF Trust are distributed by Foreside Fund Services, LLC. Investment Advisory Services for the Salient mutual funds are offered through Salient Advisors, L.P. and Salient Capital Advisors, LLC, subsidiaries of Salient Partners, L.P.

The series of funds under the Forward Funds Trust ("Salient Funds") are distributed by Forward Securities, LLC. Forward Management, LLC d/b/a Salient is the investment advisor to the Salient Funds.

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