

2018 Third Quarter Portfolio Review

Investment Objective

Salient Select Income Fund seeks high current income and the potential for modest long-term growth of capital by investing in a portfolio of senior securities and high-income equities primarily issued by real estate investment companies. While the fund's focus is on real estate investment trust (REIT) preferred securities, its allocation among preferred stocks, common stocks and bonds may shift in response to market conditions.

Portfolio Management

Joel S. Beam
 Managing Director, Senior Portfolio Manager
 24 Years Experience

Inception Date

March 30, 2001

Net Assets

\$570.94M (as of 09/30/18)

Morningstar Category

Preferred Stock

Fund Details

| Share Class | Ticker | Inception |
|---------------|--------|-----------|
| Investor | FFSLX | 10/26/11 |
| Institutional | KIYFX | 04/28/06 |
| Class A | KIFAX | 03/30/01 |
| Class C | KIFCX | 03/30/01 |

Investment Overview

The fund offers access to a professionally managed portfolio of preferred shares and senior securities that provide income-oriented investors an opportunity to own the preferred equity and bonds of public real estate companies at attractive yields.

- The fund also invests in high-yielding REIT common stocks and may seek opportunities in small capitalization REITs, as well as utilize portfolio leverage in pursuit of its objectives. While the focus is on preferred/senior securities, the allocation may shift based on market conditions.
- The portfolio employs a rigorous, repeatable, bottom-up investment approach that incorporates both quantitative and qualitative analyses of companies' cash flow, assets and management to identify securities with the most risk-adjusted appreciation potential.
- The portfolio adjusts to changing market fundamentals through sector and geographic rotation, employs active stock selection and leverages the team's experience in real estate security portfolio management.

Performance (as of 09/30/18)

Salient Select Income Fund's Class A shares produced a total return of 2.72% in the third quarter of 2018. The fund outperformed its benchmark, the ICE BofAML U.S. Preferred Stock Fixed Rate (ICE BofAML) Index, which returned 0.19%, as well as the Wells Fargo Hybrid and Preferred Securities REIT (WHPSR) Index, which returned -0.20%.

| | Q3 2018 | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception (03/30/01) |
|------------------|---------|--------|---------|---------|----------|----------------------------|
| Fund* (KIFAX) | 2.72% | -0.88% | 5.49% | 5.95% | 11.32% | 8.25% |
| ICE BofAML Index | 0.19% | 0.66% | 5.47% | 7.10% | 9.16% | 4.30% |
| WHPSR Index | -0.20% | 0.08% | 5.56% | 7.36% | 11.85% | 8.15% |

Gross Expenses/Net Expenses/Expense Limitation Agreement: **2.16%** / 1.91% / 1.55%

Returns for periods greater than one year are annualized.

* Excludes sales charge.

The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data 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 data current to the most recent month-end may be obtained at www.salientfunds.com. Investment performance may reflect fee waivers in effect. In the absence of fee waivers, total return would be lower. Total return is based on NAV, assuming reinvestment of all distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.

Market Review

REIT preferred stocks produced a small loss in the quarter, with the WHPSR Index returning -0.20%. Self-storage preferred securities—over 18% of the total market, almost entirely made up by issues of Public Storage (PSA)—returned -2.41% on the quarter. On the other end, apartment and healthcare preferred securities performed well during the quarter, up 5.43% and 3.49%, respectively, on issuer credit improvement.

REIT common stocks were roughly flat over the third quarter with the FTSE NAREIT Equity REITs Index returning 0.79%. The residential sector showed strong performance with apartments up 4.43% and manufactured homes leading the market, up 4.96%. On the other end, self-storage common stocks were down -10.22% on the quarter with almost every sector constituent down more than -10%.

With current yields averaging about 6.69%, the REIT preferred universe is priced with about 363 basis points (3.63%) of spread over the 10-year U.S. Treasury. From this point of view, preferred stocks are still arguably a good value. Notwithstanding this observation, we stand by our view that it is time to be careful and to look for more creative ways to achieve our target returns.

Given that the 10-year U.S. Treasury closed the third quarter with a yield of 3.06%, we believe interest rate risk remains top of mind for many investors. Since credit performance has generally been good and listed REITs are sound from a business and balance sheet point of view, we believe there is room for rates to move higher without profound price impact in the listed REIT preferred market. However, if rates were to rise more than 50-100 basis points, or if something disruptive were to occur in the market for credit-oriented or risk-free instruments generally—including U.S. Treasury securities—we could face price risk in our preferred portfolio. That is partly why we have, over the past few years, endeavored to populate the portfolio with investments that we believe will meet our return expectations over the coming three to five years.

Performance Review

The fund's preferred stock investments returned 1.95% in the third quarter of 2018 and outperformed the comparable WHPSR Index, which was down -0.20%. While the majority of fund's preferred investments generated strong returns on the quarter, the fund benefited most from an overweight allocation to shopping center preferreds, which were helped by a rebound in price due to tenant credit improvement, and an underweight position in self-storage preferreds, which were down -2.41% on the quarter. Highlights include strong returns from four convertible preferred investments: WHLR 9.0% Series B preferred, Braemar Hotels & Resorts 5.5% Series B preferred, and EPR Properties series C and E preferreds, which each contributed at least 10 basis points of return to the fund on the quarter.

The fund's common stock investments returned 6.65% in the third quarter, outperforming the comparable FTSE NAREIT Equity REITs Total Return Index, which returned 0.79%. Strong relative performance was driven by some core fund investments that outperformed the market and their respective sectors. Clipper Realty (CLPR) was up 59.67% on the quarter, far outstripping the apartments sector, which returned 4.43%. Additionally, Sabra Health Care (SBRA) returned 8.49% and was a 3.00% position for the fund on average over the quarter. We are pleased with the near-term performance of our core common stock investments, but we maintain a long-term view of the return potential for our companies and actively harvest winners and recycle capital into other compelling opportunities.

The fund's 10 largest contributors added 2.21% to the fund's quarterly performance with each individually contributing at least 0.10%. Six of the fund's top 10 contributors on the quarter were common stock investments and the other four were preferred

equities investments, which all contain a convertible feature. This composition highlights the benefits of incorporating additional equity optionality into the portfolio through unique security structures and opportunities. Sabra Health Care (SBRA) continues its strong performance, driven by strong execution of its 2017 acquisition of Care Capital (CCP) and careful capital allocation in a competitive healthcare real estate space. Additionally, Clipper Realty (CLPR), an owner of apartments, office and retail in New York City, which has traded at a steep discount to net asset value since its IPO in early 2017, produced strong performance in the third quarter and is up 80.21% since 02/05/18.

The fund's 10 largest detractors on the quarter detracted -0.46% from the fund with no individual investment detracting more than -0.10%. The fund's largest detractor was a preferred equity investment in Farmland Partners (FPI 6.0% Series B), which was down -3.30% and detracted -0.08% from the fund. It is important to note that the common equity of FPI underperformed sharply on the quarter, down -23.30%, but our credit-oriented investment remained insulated from the volatility in the company's common stock.

We are happy to report that the fund continues to meet its income objective in a low-yield environment, delivering income in the context of total return. We remain in great shape to take advantage of opportunities as they might develop. Through the use of the fund's resources and the fund's footprint in the business, we believe we can continue to achieve attractive income and total return.

Return Comparison (as of 09/30/18)

The table below demonstrates how the portfolio's components performed for the third quarter. Both our common stock and senior security investments provided positive contributions to the fund's total return.

| | Fund (KIFAX) ¹ | Market ² |
|-------------------|---------------------------|---------------------|
| Common Stocks | 6.65% | 0.79% |
| Senior Securities | 1.86% | -0.20% |

Past performance does not guarantee future results.

Fund Exposures (as of 09/30/2018)

| | |
|-----------------|-------|
| Long | 97.1% |
| Short | 0.0% |
| Gross | 97.1% |
| Net | 97.1% |
| Cash (Leverage) | 2.9% |

Security Exposures (as of 09/30/2018)

| | |
|----------------|-------|
| Preferred | 70.7% |
| Common (Long) | 19.6% |
| Common (Short) | 0.0% |
| Bonds | 6.8% |
| Options | 0.0% |
| Net | 97.1% |

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.

¹ Viewed as an independent portfolio comprised of various long positions and short positions. Before fund expenses.

² Common stocks: FTSE NAREIT Equity REITs Total Return Index USD (FNRETR); senior securities: ICE BofAML Index (POP1)

Positioning

Of our net exposures, we have 77.5% in senior securities (almost all in preferred stocks, but about 6.8% of the portfolio is in bonds) at quarter end. Our senior securities are doing well from a credit point of view even if market prices have been volatile. We remain keen on managing call risk and reinvestment risk while simultaneously looking for new transactions that we think make sense. Our common stock position was 19.6% long at quarter end. At quarter end, our net exposure for the overall portfolio was approximately 97.1%, ending the quarter with modest net cash (2.9%). Historically, we've operated the fund at an average leverage level of approximately 11%. As such, we are pleased to have a reserve of buying capacity as the market evolves toward more attractive levels of price and yield.

We continue to believe that the right approach for both our preferred stock and bond holdings is to make smart credit bets and source unique transactions as interest rates, spreads and return opportunities return to a more normalized landscape. Our tailored approach toward specific credits and unique structures is meant to deliver superior performance over the long term.

Over time, we believe our common stocks should provide us with income, value, dividend growth and protection against rates rising to reflect a strong economy. Provided that our common stocks support our income objective, we typically aim to have some equity exposure to attractive assets run by talented people who can potentially protect and build value.

Investment Outlook

With three quarters of 2018 in the books, REIT investors have predictably shifted their focus toward the year ahead and what 2019 will bring. Despite some rather jarring stock market moves over the past nine months, operating fundamentals continue to offer comfort for investors with long-term time horizons. Across most property types and most geographies, we continue to witness encouraging signs for occupancy, tenant renewals, re-leasing spreads and operating margins. Financing for real estate (whether public or private) remains extremely deep, resulting in the REIT sector exhibiting very sound credit metrics. Elevated supply remains an ever-present concern in certain areas of the country, yet most signals indicate that deliveries in the near future will likely slow from here.

Given this background, we generally embrace the broad consensus that 2019 will potentially offer solid opportunities for REITs. While at this point very few companies have provided guidance for next year,

our expectation is that REITs will 1) produce low-to-mid single-digit net operating income (NOI) growth for most property sectors, 2) maintain current occupancy rates as we believe absorption will continue to surprise to the upside, 3) accelerate share buybacks if the current NAV-discount persists, and 4) opportunistically utilize mergers and acquisitions (M&A) to create late-cycle value.

Regarding M&A activity, we find the ascendant pace of mergers and take-private transactions among publicly-traded REITs (eight transactions year-to-date totaling over \$70 billion in value by our count) are a natural byproduct of 1) the tremendous amount of private capital committed, but not yet deployed, to buy real estate assets and 2) opportunistic REITs using their pristine balance sheets and cost-of-capital advantage to capitalize on the perceived mispricing between private and public real estate. An effect somewhat related to the M&A boom has been a significant downturn in capital markets activity via REITs this year. Through the first nine months of 2018, REIT issuance for follow-on common equity and preferred equity are down meaningfully: -37% and -92%, respectively, in year-to-date dollar volume. Barring a sudden change of the economic landscape or a surprising surge in REIT valuations, we do not see either of these trends abating anytime soon.

When looking to the future, we often get asked by clients what keeps us up at night. Our current response, while perhaps not terribly original, revolves around interest rates, the broader economy and the upcoming election. The short-term impact of the 10-year U.S. Treasury yield increasing about 60 basis points from the start of the year following three successive rate hikes by the U.S. Federal Reserve has been felt broadly across the REIT landscape. It is our conviction that increasing rates due to a strengthening economy will be constructive toward landlords over time, but it impels us to continue to emphasize shorter-lease duration asset types (such as lodging and apartments) as their repricing opportunity can outpace the higher discount rates that the market will place on their future cash flows. Correspondingly, we have biased our portfolio with higher cap rate investments, which tend to fall in the small-cap universe, given our supportive views on the probability of a continued economic expansion. With record low unemployment and strong corporate earnings, we have limited reason to believe that an economic recession will occur in the very near term. Nonetheless, the upcoming midterm elections could change one or both chambers of Congress, resulting in a different regulatory environment, potentially changing the trajectory of the U.S. economy. Despite these risks and many others, we continue to feel optimistic that REITs will reward investors in the years to come.

Performance (%) as of 09/30/18

| | Q3 | YTD | 1 YR | 3 YR | 5 YR | 10 YR | Since Inception |
|--|-------|-------|-------|------|------|-------|-----------------|
| Investor | 2.74 | 0.38 | -0.57 | 5.88 | 6.37 | 11.73 | 5.69 |
| Institutional [¶] | 2.67 | 0.19 | -0.86 | 5.52 | 6.00 | - | 8.08 |
| Class A @NAV* | 2.72 | 0.18 | -0.88 | 5.49 | 5.95 | 11.32 | 8.25 |
| Class A @MOP** | -3.20 | -5.57 | -6.57 | 3.43 | 4.71 | 10.66 | 7.88 |
| Class C @NAV [†] | 2.34 | -0.48 | -1.69 | 4.83 | 5.32 | 10.59 | 7.48 |
| Class C @MOP [‡] | 1.34 | -1.44 | -2.59 | 4.83 | 5.32 | 10.59 | 7.48 |
| ICE BofAML Fixed Rate Preferred Securities Index | 0.19 | 0.23 | 0.66 | 5.47 | 7.10 | 9.16 | - |

Returns for periods greater than one year are annualized.

* On March 29, 2017, Advisor Class shares were closed and outstanding shares were exchanged for Institutional Class shares.

† Excludes sales charge. ** Reflects effects of the fund's maximum sales charge of 5.75%.

‡ Excludes the effects of the 1% contingent deferred sales charge. † Includes the effects of the 1% contingent deferred sales charge.

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Total Annual Fund Operating Expenses by Share Class as of 07/01/18: Investor Class: 2.11%; Institutional Class: 1.76%; Class A: 2.16%; Class C: 2.71%. The fund's investment advisor is contractually obligated to waive 0.25% of the fund's management fee so that until April 30, 2019, the fund's management fee

will be 0.75%. Additionally, under an expense limitation agreement, the investment advisor has contractually agreed to waive its management fee and/or reimburse or pay operating expenses of the fund to the extent necessary to maintain the fund's total operating expenses at 1.50% for Investor Class, 1.15% for Institutional Class, 1.55% for Class A and 2.10% for Class C shares, excluding certain expenses, such as taxes, brokerage commissions, interest, short dividend expense, any acquired fund fees and expenses, litigation and extraordinary expenses. This expense limitation agreement expires on April 30, 2019, and may only be modified or terminated by a majority vote of the independent trustees. The advisor is permitted to recover waived expenses for a period of up to three years.

Top Contributors & Detractors by Holding (as of 09/30/18)

| | Top Contributors | Contribution | Top Detractors | Contribution |
|--------------------------|-----------------------------|---------------------|-------------------------------------|---------------------|
| Senior Securities | WHLR 9.0% Series B Pfd | 0.20% | FPI 6.0% Series B Pfd | -0.08% |
| | BHR 5.5% Series B Pfd | 0.18% | UMH 6.75% Series C Pfd | -0.06% |
| | EPR 9.0% Series E Pfd | 0.14% | STAR 7.65% Series G Pfd | -0.03% |
| | EPR 5.75% Series C Pfd | 0.10% | WPG 6.875% Series I Pfd | -0.03% |
| | QTS 6.5% Series B Pfd | 0.08% | HT 6.5% Series E Pfd | -0.02% |
| Common Stocks | Clipper Realty (CLPR) | 0.83% | Lexington Realty Trust (LXP) | -0.08% |
| | Sabra Health Care (SBRA) | 0.32% | DDR Corp (DDR) | -0.07% |
| | Exantas Capital (XAN) | 0.13% | Colony Capital (CLNY) | -0.04% |
| | STAG Industrial (STAG) | 0.11% | Retail Properties of America (RPAI) | -0.02% |
| | American Homes 4 Rent (AMH) | 0.10% | Apple Hospitality (APLE) | -0.01% |

Past performance does not guarantee future results. These holdings may not reflect the current or future positions in the portfolio.

Top Contributors & Detractors by Sector (as of 09/30/18)

| | Top Contributors | Contribution | Top Detractors | Contribution |
|--------------------------|-------------------------|---------------------|-----------------------|---------------------|
| Senior Securities | Shopping Centers | 0.53% | Manufactured Homes | -0.04% |
| | Lodging/Resorts | 0.19% | Commercial Financing | -0.04% |
| | Specialty | 0.16% | Regional Malls | -0.03% |
| | Apartments | 0.14% | N/A | - |
| | Data Centers | 0.08% | N/A | - |
| Common Stocks | Apartments | 0.83% | Diversified | -0.10% |
| | Healthcare | 0.35% | Shopping Centers | -0.09% |
| | Commercial Financing | 0.23% | N/A | - |
| | Industrial | 0.11% | N/A | - |
| | Single Family Homes | 0.10% | N/A | - |

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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.

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.

RISKS

There are risks involved with investing, including loss of principal. Past performance does not guarantee future results, share prices will fluctuate and you may have a gain or loss when you redeem shares.

Borrowing for investment purposes creates leverage, which can increase the risk and volatility of a fund.

Concentration in a particular industry will involve a greater degree of risk than a more diversified portfolio.

Debt securities are subject to interest rate risk. If interest rates increase, the value of debt securities generally declines. Debt securities with longer durations tend to be more sensitive to changes in interest rates and more volatile than securities with shorter durations.

Derivative instruments involve risks different from those associated with investing directly in securities and may cause, among other things, increased volatility and transaction costs or a fund to lose more than the amount invested.

Investing in lower-rated ("high yield") debt securities involves special risks in addition to those associated with investments in higher-rated debt securities, including a high degree of credit risk.

Mortgage and asset-backed securities are debt instruments that are secured by interests in pools of mortgage loans or other financial instruments. Mortgage-backed securities are subject to, among other things, prepayment and extension risks.

Investing in the real estate industry or in real estate-related securities involves the risks associated with direct ownership of real estate which include, among other things, changes in economic conditions (e.g., interest rates), the macro real estate development market, government intervention (e.g., property taxes) or environmental disasters. These risks may also affect the value of equities that service the real estate sector.

Investing in smaller companies generally will present greater investment risks, including greater price volatility, greater sensitivity to changing economic conditions and less liquidity than investing in larger, more mature companies.

There is no guarantee the companies in our portfolio will continue to pay dividends.

Definition of Terms

10-year U.S. Treasury is a debt obligation issued by the U.S. Treasury that has a term of more than one year but not more than 10 years.

Basis point is a unit that is equal to 1/100th of 1%, used to denote the change in a financial instrument.

Call risk is the risk faced by a holder of a callable bond that the bond issuer will take advantage of the callable bond feature and redeem the issue prior to maturity.

Duration risk is the risk that the value of an asset or liability may change as a result of changes in interest rates.

Fixed-rate perpetual preferred stock is a financial instrument that has characteristics of both debt (fixed dividends) and equity (potential appreciation).

FTSE NAREIT Equity REITs Index is representative of the tax-qualified REITs listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market, excluding timber and infrastructure REITs.

ICE BofAML U.S. Preferred Stock Fixed Rate Index consists of investment-grade, fixed and fixed-to-floating rate U.S. dollar-denominated preferred securities.

Wells Fargo Hybrid and Preferred Securities REIT Index is a modified market capitalization-weighted index that tracks the performance of preferred securities issued in the U.S. market by real estate investment trusts.

One cannot invest directly in an index.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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