December 2018 Market Update

Strategy Overview

Salient Tactical Growth is designed to help investors sidestep market downturns, while participating in its growth via the continuous and active management of portfolio market exposure. The strategy seeks to manage risk and enhance alpha with the flexibility to be long, short or neutral on the market.

- The strategy is designed as a core investment for those who worry about losing money in equity market downturns but also want to participate in the market's upside. Using active market exposure management, the strategy moves in and out of the market incrementally based upon macro and technical factors.
- The strategy invests primarily in a diversified portfolio of exchange-traded funds (ETFs) and instruments providing exposure to indices, sectors and industries based on its four-pillar process.
- Proprietary Volume/Breadth-Based Momentum models are used to determine optimal stock market exposure including entry points, the amount of exposure, the type of exposure and exit points.

Portfolio Management

Christopher J. Guptill
CEO and CIO
39 Years Experience

Sub-Advisor

Broadmark Asset Management LLC

Benchmarks

S&P 500 Index
Morningstar Long/Short Equity Index

The major market averages rallied in early November, but tumbled again midmonth, testing their 2018 lows. Higher-beta sectors, such as technology and small-cap stocks, were weaker than the broader market averages. Stocks recovered in the last few weeks of the month, with the S&P 500 Index and Dow Jones Industrials Average (DJIA) ending the month with small gains. The Nasdaq-100 Index and Russell 2000 Index both ended the month slightly negative. During the last week of November, U.S. Federal Reserve (Fed) Chair Jerome Powell said that the benchmark interest rate was "just below the neutral rate" after previously having said that it was "a long way" from neutral. The markets perceived this statement as reflecting more flexibility on the part of the Fed regarding future interest rate hikes and sparked the market's rally in the last week of the month.

As the market declined into mid-November, our models turned more positive. Investor sentiment improved significantly with our sentiment models showing the most pessimism (positive from a contrary point of view) in two years. Interest rates continued to ease and valuation measures improved. We also saw some positive divergences in the market itself as the market successfully tested its 2018 lows with an improvement in upside versus downside volume.

As our models improved, we increased our market exposure during November. In addition, we replaced our exposure to the defensive DJIA with the higher-beta Russell 2000, increasing the beta of the portfolio. If interest rates remain stable, investors remain cautious and our momentum models remain positive, we will maintain or increase our market exposure in order to take advantage of market strength. However, a number of our longer-term models, such as the low level of mutual fund cash and the widening of credit spreads, indicate that we are still in the late stages of the economic cycle. We therefore remain ready to become more defensive in the portfolio if we see a deterioration in our models from their current levels.

Our assessment of the four pillars of our investment process is as follows:

1. *Valuation:* Rising earnings have brought valuations lower in recent months, which is positive. The median price-earnings ratio now stands at 22.8, below its 15-year high of 26.8 reached in January 2018. There is a growing perception that we may have reached peak earnings for this economic cycle and the lower valuations reflect this lower assessment.
2. *Monetary factors and credit conditions:* Interest rates declined in November. However, one of the most important developments during the month was that despite the decline in rates, credit spreads widened. The spread between the yield on the Bloomberg Barclays U.S. Corporate High Yield Bond Index and 10-year U.S. Treasury Note widened to its highest level in over a year (*Figure 1*). This spread is an important indicator to watch, as widening credit spreads are often a precursor of future economic weakness.
3. *Sentiment:* Investor sentiment turned quickly negative in November as stock prices declined. The NDR Crowd Sentiment Poll reached its most pessimistic level in two years, which is a positive development from a contrary point of view (*Figure 2*). From a longer-term perspective, however, mutual fund cash as a percentage of total assets (adjusted for interest rates) has now fallen to its lowest level since the market top of 2007 and, prior to that, the market top of 2000 (*Figure 3*). This low level of mutual fund cash indicates that mutual funds are nearly fully invested by historical measures.
4. *Momentum:* The November decline pushed the percentage of stocks above their 10- and 30-week moving averages to the most oversold levels in two years (*Figure 4*). The severity of the market's November decline, accompanied by lower valuations and pessimistic investor sentiment, has created a short-term oversold condition, which contributed to our decision to raise our market exposure and increase the beta of the portfolio.

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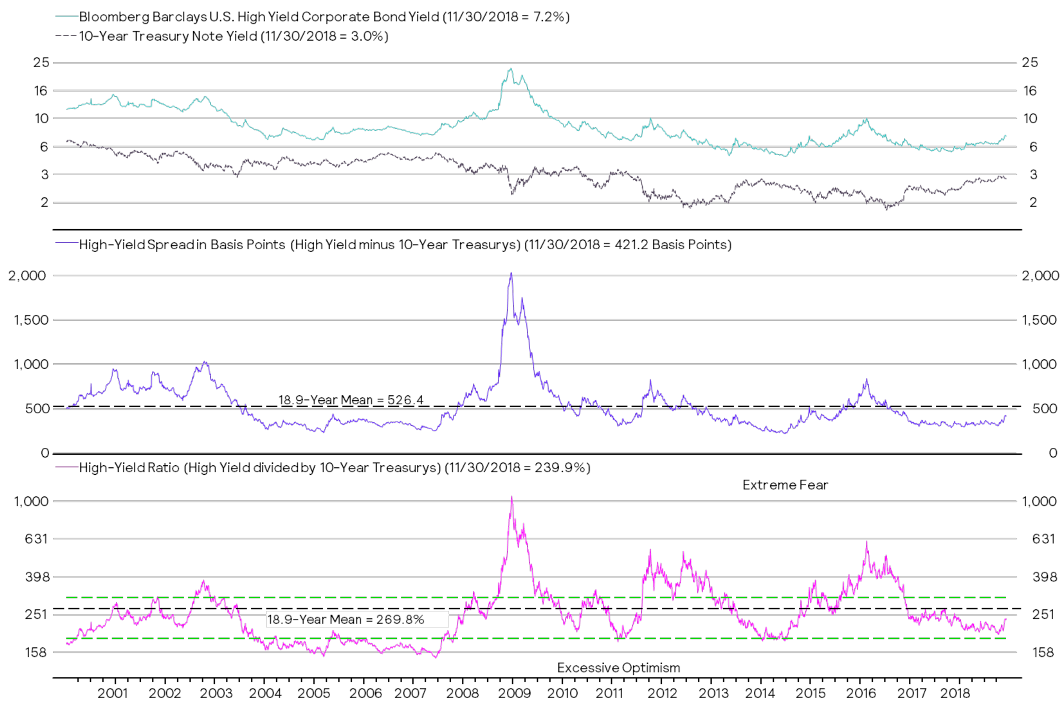
Figure 1.

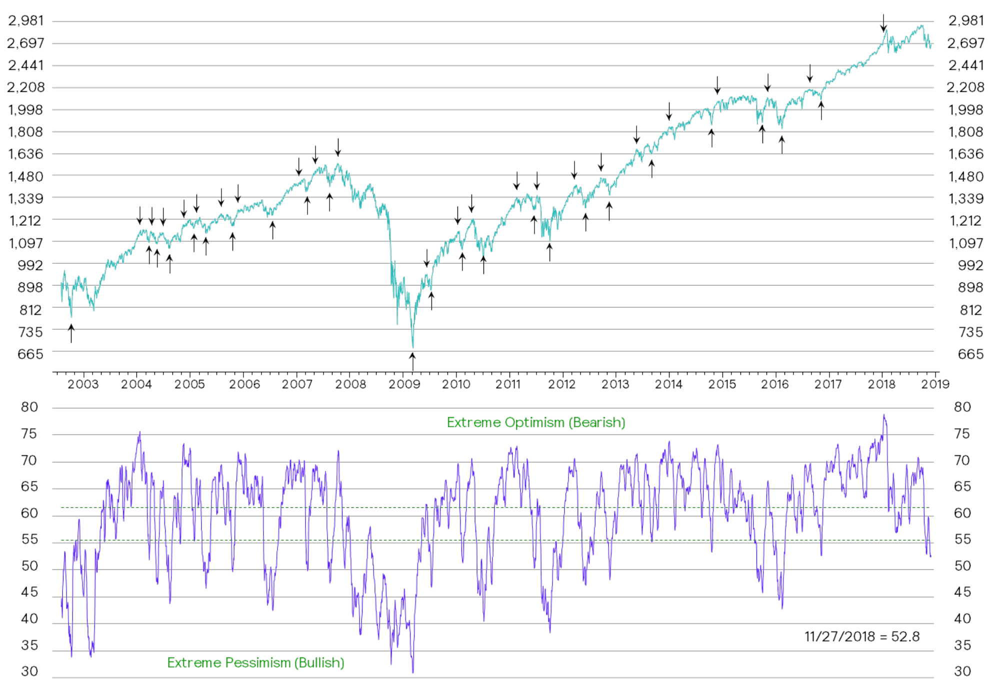
High-Yield Corporate Spreads



Sources: Ned Davis Research (NDR), Bloomberg Barclays Indices, Federal Reserve Board. Daily data 01/03/2000 to 11/30/2018. *Past performance does not guarantee future results.*

Figure 2.

S&P 500 Composite Index



NDR Crowd Sentiment Poll

Extremes Generated When Sentiment Reading Moves:
Above 61.5% = Extreme Optimism
Below 55.5% = Extreme Pessimism

Sentiment must reverse by 10 percentage points to signal an extreme in addition to the above extreme levels being reached.

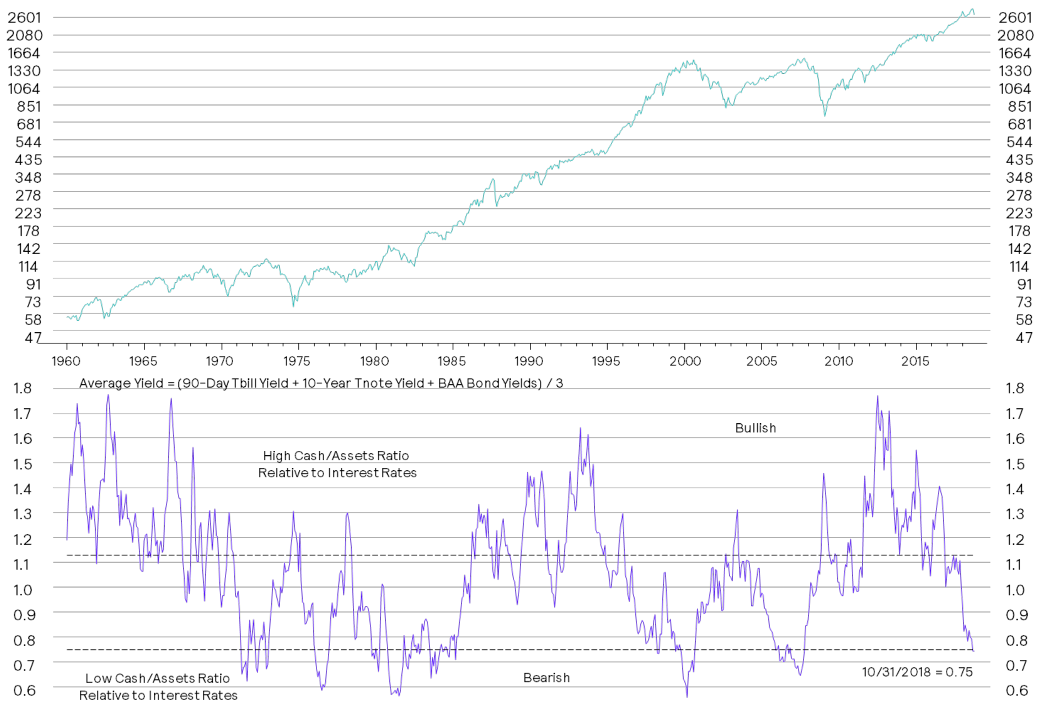
Arrows represent extremes in optimism and pessimism. They do not represent buy and sell signals and can only be known for certain (and added to the chart) in hindsight.

Average Value of Indicator At:
Optimistic Extremes (down arrows) = 68.6
Pessimistic Extremes (up arrows) = 46.9
Average Spread Between Extremes = 21.5

Sources: Ned Davis Research (NDR), S&P Dow Jones Indices. Daily data 07/31/2002 to 11/27/2018 (log scale). *Past performance does not guarantee future results.*

Figure 3.

Standard & Poor's 500 Stock Index



S&P 500 Index Gain/Annum When:

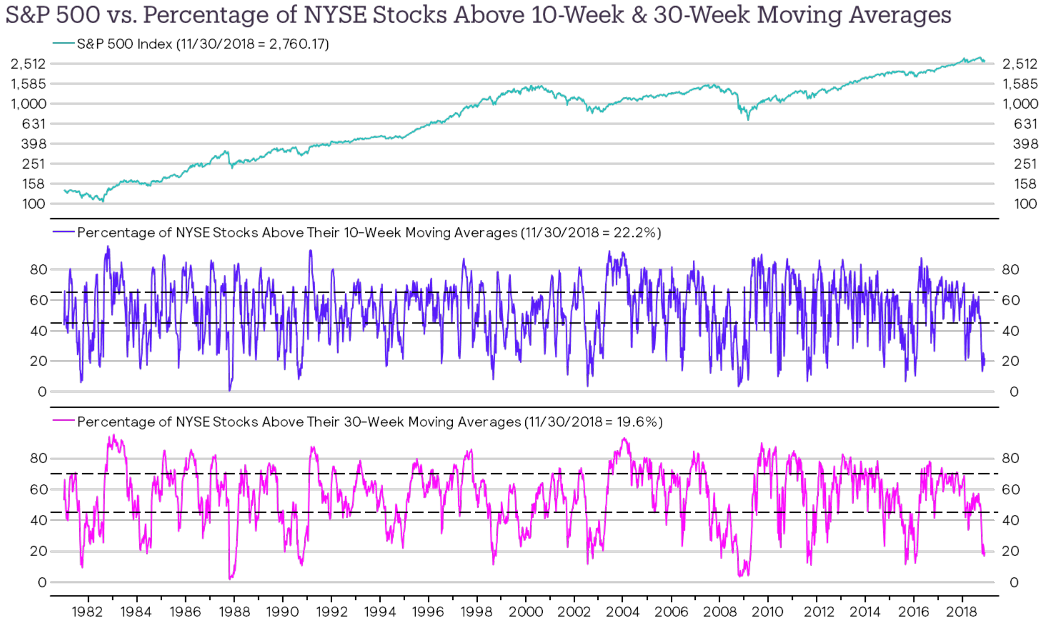
Sentiment Ratio Is:	Gain/ Annum	% of Time
Above 1.13	14.8	39.0
Between 0.75–1.13	2.9	47.8
* Below 0.75	-1.1	13.2

Domestic Stock Mutual Fund Cash/Assets Relative to Interest Rate Composite

Sources: NDR, S&P Dow Jones Indices, Investment Company Institute. Monthly data 01/31/1960 to 10/31/2018 (log scale). *Past performance does not guarantee future results.*

Figure 4.

S&P 500 vs. Percentage of NYSE Stocks Above 10-Week & 30-Week Moving Averages



For Both Indicators:
Upper and Low Modes = Bullish
Middle Modes = Bearish

Signal only changes when both indicators confirm.

S&P 500 Performance
01/02/1981 to 11/30/2018

Combined Signal is	% Gain/ Annum	% of Time
Both Indicators Bullish	12.08	59.71
Both Indicators Bearish	2.81	40.29

Buy/Hold = 8.25% Gain/Annum

Sources: NDR, S&P Dow Jones Indices, Investors Intelligence. Weekly data 01/02/1981 to 11/30/2018. NYSE: New York Stock Exchange. *Past performance does not guarantee future results.*

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.

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

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.

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 exchange-traded funds (ETFs) will subject a fund to substantially the same risks as those associated with the direct ownership of the securities or other property held by the ETFs.

Foreign securities, especially emerging or frontier markets, will involve additional risks including exchange rate fluctuations, social and political instability, less liquidity, greater volatility and less regulation.

Short selling involves additional investment risks and transaction costs, and creates leverage, which can increase the risk and volatility of a fund.

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.

Alternative strategies typically are subject to increased risk and loss of principal. Consequently, investments such as mutual funds which focus on alternative strategies are not suitable for all investors.

Asset allocation does not assure profit or protect against risk.

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.

Baa is a Moody's long-term credit rating given to bond issuers that are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Basis point (bps) is a unit of measure that is equal to 1/100th of 1% and used to denote a change in the value or rate of a financial instrument.

Bloomberg Barclays U.S. Corporate High Yield Bond Index covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Credit spread is the spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

Momentum is the rate of acceleration of a security's price or volume.

NASDAQ-100 Index is a modified capitalization-weighted index that includes the largest nonfinancial U.S. and non-U.S. companies listed on the NASDAQ stock market across a variety of industries, such as retail, healthcare, telecommunications, wholesale trade, biotechnology and technology.

NDR Crowd Sentiment Poll is a composite reading based on seven different individual sentiment indicators designed to highlight short- to intermediate-term swings in investor psychology.

NYSE Composite Index covers the price movements of all common stocks listed on the New York Stock Exchange, including American depositary receipts, real estate investment trusts, tracking stocks and foreign listings.

Price-earnings (P/E) ratio is a measure of the price paid for a share of stock relative to the annual income or profit earned by the company per share. A higher P/E ratio means that investors are paying more for each unit of income.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

S&P 500 Index is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

Treasurys (or Treasury bonds) are debt obligations issued and backed by the full faith and credit of the U.S. government.

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

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

One cannot invest directly in an index.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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